I 10A

Summary of David A. Schlissel
Exhibit I 10a
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1. In the past 18 months, more than 20 proposed coal-fired power plants have been cancelled, more than three dozen more have been delayed and a number have been rejected by state regulatory commissions or boards because of, at least in part, the uncertainties and risks regarding future power plant construction costs and the likelihood for federal regulation of power plant greenhouse gas emissions.

2. Developments since I last testified here in June 2007 confirm the conclusion in my earlier testimony that the potential for future increases in the cost of building Big Stone II and the likelihood of federal restrictions on CO_2 emissions are very significant uncertainties and risks for the Big Stone II Project. However, OTP and MDU still have not adequately considered these uncertainties and risks in their new analyses and testimony before this Commission.

3. Coal plant construction costs have increased dramatically in recent years as a result of the domestic and international competition for design and construction resources, manufacturing capacity and commodities like steel, copper, piping, and concrete. Words like "skyrocketing, "soaring," and "staggering" have been used to describe these increases. It is imprudent to not allow that the same factors that have led to the skyrocketing of power plant construction costs in recent years will continue to raise project costs during the five or more years it would take to design and build the Big Stone II Project. However, OTP has prepared only a single economic modeling scenario that considered only a 10 percent increase in the construction cost of Big Stone II. MDU has not evaluated the economics of the project assuming any additional increases in the cost of Big Stone II.

4. This worldwide competition for power plant design and construction resources comes from other plants in the U.S. and from other countries, most significantly, China and India. The competition also comes from other industries – resources are need to design and build LNG terminals and oil refineries, for example. And there is no evidence that this international and domestic competition will diminish at any point in the foreseeable future. The coming renaissance of the nuclear industry also will compete for limited power plant design and construction resources. In this environment, the cancellation of even 20 or 40 power plants in the U.S. is very unlikely to markedly reduce, in the short term, the upward trajectories of power plant costs.

5. It would have been prudent for OTP and MDU to prepare a new construction cost estimate and schedule for the Big Stone II Project at some point since work on the project was suspended in September 2006. The existing cost estimate will soon be two years old. However, the companies made a conscious decision not to prepare a new estimate until after they have received the regulatory approvals from this Commission and the Minnesota PUC. Instead, even without presenting a current construction cost estimate for the Project, both companies want a blank check from this Commission that will put all of the risks of higher plant construction, and operating costs, on ratepayers. Rather than grant such a blank check, I

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believe this Commission should follow the recent example of another Commission and reject a proposed project because the existing cost estimate is too old and out-of-date. Or, at a minimum, the Commission should cap the amount of the cost of building Big Stone II that OTP and MDU can recover in rates as prudent investments.

6. I would note, in passing, that although OTP and MDU have not developed a new Big Stone II cost estimate, the plant capital cost that they have used in their new analyses reflects a new 2.5 percent reduction in the cost of building the plant based on unspecified, and apparently currently unknown, factors. This illustrates the difference between OTP, MDU and many other utilities, both public and investor-owned. Other companies have confronted the threat of higher plant costs and cancelled or delayed their projects when costs and risks became too high. In the same situation, OTP and MDU more-than-optimistically assume that they will be able to achieve additional but currently unspecified and unknown, cost savings in building their proposed coal-fired power plant. However, OTP and MDU want ratepayers, not the companies, to bear the risk that they are wrong.

7. Both companies also want ratepayers to bear all of the risks of CO_2 costs. At various times, the companies have argued that there will be no federal regulation of CO_2 costs in the near future, or that any costs associated with federal regulation of greenhouse gas emissions will be very low or that each company will receive large numbers of free CO_2 emissions allowances under any federal cap-and-trade scheme. If they truly believe any of these claims, both companies should be willing to bear the risks associated with CO_2 costs – in other words, "to put their money where their mouth is," to used a common idiom. But they are clearly unwilling to do so.

8. OTP and MDU, and their witnesses, repeatedly use natural gas as a scare tactic to frighten the Commission into finding their involvement in Big Stone II is prudent. In doing so, they ignore their already heavy dependence on coal fired generation, a dependence which represents a real economic and financial threat given the likelihood of federal regulation of greenhouse gas emissions in the near future. For example, MDU has testified that with Big Stone II, it would increase its dependence on coal-fired generation from 77 percent of its installed capacity to 82 percent. OTP and MDU also ignore that this region is much less dependent on natural gas than on coal. As I explain in my testimony, over-dependence on natural gas may be a problem in some regions of the U.S. but not here.

9. However, I must be clear on one point. We have never advocated natural gas as the sole alternative to Big Stone II. Instead we have argued that OTP and MDU should explore a portfolio of alternatives that includes energy efficiency, renewable resources like wind power, and, to the minimum extent necessary, gas-fired generation. North Dakota has some of the best, if not the best, wind resources in the nation. The state's utilities should be taking all reasonable steps to take advantage of these renewable, non-carbon-emitting, resources, to the maximum extent possible. Energy efficiency is another valuable, non-carbon-emitting resource that OTP and MDU should exploit more completely before they

lock their ratepayers into paying for an expensive coal-fired power plant for the next 60 years.

10. I use the following example when I talk with investors. Assume you want to build a new house. You go to the builder and he or she says, "sure, I'll build you a fine house but I can't tell you what it will cost because of rising labor and materials costs." Then you go to the town in which you want to build the house, and you're told "we can't tell you what the property taxes will be. We know they will be higher, but we don't know how high." Finally, you go to the bank and can only get a variable rate mortgage. Would any prudent person risk their own money on such a venture. I believe the answer is no – no prudent person would risk their own money this way. Yet OTP and MDU want you to approve risking their ratepayers' money on such an uncertain project.

11. Based on my 34 years + of experience on energy and utility issues, I believe that prudent utilities confront, rather than deny, risks and then consider those risks in their resource planning processes (a) by considering ranges of assumed value for the most important assumptions – such as project construction costs, CO_2 costs, coal costs, including railroad transportation costs, plant operating performance, costs of alternatives, and the cost of natural gas, and (b) by considering a wide range of non- and low-carbon emitting alternatives in their studies.

12. OTP has not and cannot present such a prudent risk analysis because it is still using a slow and obsolete planning model that no other utility in the country uses, according to OTP itself. I remember Mr. Morlock explaining to us back in 2006 that OTP's planning model would have taken 4-7 days just to make such a simple change as moving the Big Stone II Project's commercial operation date by six months. Clearly, completing the large number of model runs needed to fully evaluate the risks of the Big Stone II Project was beyond the capability of OTP's model. Also, OTP cannot show you how much of an economic benefit Big Stone II would provide for its ratepayers. Quite simply, its argument is that Big Stone II is a prudent investment because the IRP-Manager Model picked it as such. In my opinion, this is imprudent.

13. To its credit, MDU has used a more state-of-the-art model. However, it has not conducted any sensitivity analyses reflecting higher Big Stone II construction costs or CO_2 costs. Moreover, MDU has so heavily burdened the alternatives to Big Stone II in its new analyses that it really is no surprise that, in its new runs, the Strategist model picked Big Stone II. However, as I discuss in my testimony when we reran the Strategist model for MDU last December in the Minnesota Certificate of Need Proceeding, we found that Strategist did not pick any Big Stone II when we made such minor changes as including an extremely low CO_2 price or to increase the construction cost of Big Stone II by 10 percent. MDU's response to our Minnesota testimony was to again change the assumptions in its Strategist modeling analyses to even further burden the alternatives to Big Stone II such as by assuming that the federal wind Production Tax Credit will no longer be available after January 1, 2009. I would not that the U.S. Senate, by a vote of

88 to 8, already has passed a bill that would extend the PTC through the end of 2009.

14. In conclusion, I have seen no evidence that the currently increasing power plant construction costs, the likelihood of federal regulation of greenhouse gas emissions, and the cancellation and delay of proposed power plants are "normal" parts of the power industry's building cycle. The "staggering" construction cost increases that are currently being experienced by proposed projects are unprecedented for non-nuclear plants. The threats posed by global climate change also are unprecedented and will require decades of serious and concerted actions to address. In this environment, building and being locked into a new coal-fired power plant that can be expected to operate for another 60 years is not and cannot be a prudent management decision unless rigorous analyses, fully reflecting all of the risks and uncertainties and fairly considering the alternatives, have been considered. OTP and MDU have failed to provide those rigorous analyses to this Commission.