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March 26, 2009

Commissioner Dusty Johnson
Commissioner Steve Kolbeck
Commissioner Gary Hanson
South Dakota Public Utilities Commission
523 E. Capitol
Pierre, SD 57501

Dear Chairman Johnson, Vice Chairman Kolbeck and Commissioner Hanson:

Thank you for your inquiry of March 13 bringing attention to an issue we at Black Hills Power are most concerned about on behalf of our customers. In a rush to address climate change before the technology to capture and sequester carbon is proven, the Administration and Congress may be on the verge of passing a regressive carbon tax that would hit our South Dakota and Midwest customers and economy hard, especially in the midst of an economic recession.

We have shared with you our Congressional briefing materials stating our concerns that CO₂ compliance costs will be more than our customers can bear, especially during an economic crisis. We have shared our projected cost increases for Black Hills Power customers, which range from an average of 34% at \$20 per ton of carbon to 85% at \$50 per ton of carbon. We have applied the costs to actual Black Hills Power customer bills, including a residential customer, small commercial customer, a school, and an industrial customer (within attached PPT).

We also shared a U.S. map showing the percentage of coal generation by state (Attachment A) correlated to the price of electricity. Basically, the higher the reliance on coal, the lower the price of electricity. Customers in coal-reliant states, including South Dakota, will bear the brunt of legislation promoted by leadership in less coal-reliant states including California (1% coal generation) and the Northeast (2% coal generation). Thus carbon is as much or more a regional issue than it is a partisan issue.

As Democratic Senators who had concerns with Lieberman-Warner put it in a June 6 2008 letter to Senators Harry Reid and Barbara Boxer, "As Democrats from regions of the country that will be most immediately affected by climate legislation...we cannot support final passage of the Boxer Substitute in this current form." (Attachment B) A similar letter was sent March 12, 2009 to Senators Kent Conrad and Judd Gregg, who chair the Budget Committee, stating "We oppose using the budget reconciliation process to expedite passage of climate legislation. Enactment of a cap-and-trade regime is likely to influence nearly every feature of the U.S. economy. Legislation so far-reaching should be fully vetted and given appropriate time for debate." (Attachment C) We wholeheartedly agree.

If cap-and-trade legislation were to be passed, we believe it should include all suppliers of electricity. CO₂ emissions allowances must be granted to current emitters to mitigate economic harm to customers, and all new plants under construction prior to enactment of legislation need to be included. If credits are to be auctioned, a gradual phase-in of the percentage auctioned would help customers avoid rate shock and allow technology to catch up. We are currently involved in a carbon capture and storage Department of Energy grant application with Babcock & Wilcox. Even if the project is funded and we can find the capital and customers to build the demonstration power plant, it won't be up and running until at least 2015. It is important not to get the mandates ahead of the technology.

Again, thank you for bringing this extremely important issue to light in your upcoming forum. Your leadership is extremely important, and we'll work with you to get the message out to the customers of South Dakota.

Sincerely,

Chuck Loomis
Vice President Operations
Black Hills Power

Barbara Zar
Director Federal Governmental Affairs
Black Hills Corporation