

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

CASE NO. EL05-022

IN THE MATTER OF THE APPLICATION BY OTTER TAIL POWER COMPANY

ON BEHALF OF THE BIG STONE II CO-OWNERS

FOR AN ENERGY CONVERSION FACILITY SITING PERMIT FOR THE

CONSTRUCTION OF THE BIG STONE II PROJECT

PREFILED REBUTTAL TESTIMONY

OF

DANIEL E. KLEIN

PRESIDENT

TWENTY-FIRST STRATEGIES, LLC

JUNE 9, 2006



PREFILED REBUTTAL TESTIMONY OF DANIEL E. KLEIN

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1 **BEFORE THE SOUTH DAKOTA PUBLIC UTILITIES COMMISSION**

2 **PREFILED REBUTTAL TESTIMONY OF DANIEL E. KLEIN**

3 **I INTRODUCTION AND SUMMARY**

4 **Q: Please state your name and business address for the record.**

5 A: My name is Daniel E. Klein, and my business address is Twenty-First Strategies, LLC,
6 6595 Terri Knoll Court, McLean, VA 22101.

7 **Q: Briefly describe your present occupation and responsibilities.**

8 A: I am President of Twenty-First Strategies, LLC, a consulting firm founded in 1995 to
9 offer energy and environmental consulting services to electric power companies, industry
10 associations, government agencies, NGOs, and others.

11 **Q: Briefly describe your educational and professional background.**

12 A: In 1973, I received a bachelor's degree in Urban Studies from the Massachusetts Institute
13 of Technology. In 1975, I received a Masters of Business Administration from the Stanford
14 University Graduate School of Business. Since that time, I have been a consultant specializing in
15 energy, environmental, and economic analysis. Beginning in 1975, I was employed for over
16 twenty years by the consulting firm ICF Resources Incorporated (originally ICF Inc.), where for
17 several years I was a Senior Vice President and Director. I founded Twenty-First Strategies in
18 1995 to offer energy and environmental consulting services to electric power companies,
19 industry associations, government agencies, NGOs, and others.

20 Applicants' Exhibit 31O to this Testimony presents my resume, qualifications, and
21 experience in greater detail.

1 **Q: What is the purpose of your testimony in this proceeding?**

2 A: The purpose of my testimony is to address the concept of risk in the context of selecting
 3 the proper type of electric generation resource to meet the future needs of the Big Stone Unit II
 4 participants. Opponents of the Big Stone Unit II project have argued that construction of a new
 5 baseload generating station may not be justified in light of what they perceive as the significant
 6 risk of future greenhouse gas regulation. I understand other witnesses will address the possibility
 7 that such regulations will be adopted. My testimony addresses the significant risk that would
 8 result from not constructing the Big Stone Unit II station and relying on other forms of electric
 9 generation.

10 **Q: Please summarize the findings made in your analysis.**

11 A: As I understand it, the Big Stone Unit II owners have determined there is a need for
 12 baseload resources.

13 To meet this increasing demand, seven electric utilities have proposed building Big Stone
 14 Unit II, a 600-megawatt, coal-fired electric generation plant. The plant's dispatchable, baseload
 15 power would increase reliability in the region, as well as add diversity and reduce single-outage
 16 risks for the participants.

17 If Big Stone Unit II is not built, an alternative means of acquiring baseload resources will
 18 be required. Likely alternatives to supply 600 MW of baseload power are few, and would entail
 19 dependence upon expensive and risky supplies of natural gas and/or petroleum fuels. In most
 20 parts of the U.S., the primary alternative to a new coal-fired plant would be construction of a 600
 21 MW combined cycle natural gas plant. Nuclear energy is edging closer to again becoming a
 22 viable option for new capacity, but cannot yet be considered dependable with respect to

1 licensing, timing, and costs. The other primary source of baseload power, large hydroelectric
 2 plants, offers no reasonable opportunities for large-scale additions.

3 Renewable resources such as wind power could substitute for some of the generation that
 4 Big Stone Unit II would produce. But because these resources are intermittent and not
 5 dispatchable, they make only a limited contribution to meeting peak load capacity needs. These
 6 intermittent renewable resources would require back-up capabilities such as natural gas-fired
 7 turbines before most of the capacity could be considered dependable.

8 Accordingly, capacity alternatives to Big Stone Unit II entail utilization of natural gas (or
 9 petroleum fuels), either as a primary or backup fuel supply. Natural gas (and petroleum) prices
 10 are much more volatile than coal prices. Because of this, regions with more coal-fired power in
 11 their generation mix have more stable power rates.

12 The volatility of natural gas prices creates a highly significant risk factor for an electric
 13 generation resource that relies on natural gas. As shown below, if Big Stone Unit II were gas-
 14 fired instead of coal-fired, an increase in gas prices of only \$1/MMBtu would increase
 15 generation costs by about \$30,000,000 in a single year. As also shown below, natural gas prices
 16 to electric power generators have often changed by over \$1/MMBtu in a single year. Forecasts of
 17 future natural gas markets show similar price unpredictability. For instance, for the last ten years
 18 Energy Information Administration forecasts have consistently projected 2005 natural gas prices
 19 at \$4/MMBTU and below, whereas actual 2005 gas prices reached three times that level.

20 In contrast, coal prices tend to be much more stable than natural gas prices, and, in any
 21 event, coal prices can be locked in long-term through coal supply agreements. As a result, coal
 22 plants are likely to involve far less generation cost risk than an alternative that relies on natural
 23 gas for fuel.

1 **Q: Is the risk advantage of coal increasing as compared to natural gas?**

2 A: Yes. The outlook for natural gas supplies is worsening for consumers. The supply
 3 disruptions and high prices of the 1970s and early 1980s was followed by a period of generally
 4 ample supplies and lower prices lasting through the mid-1980s and most of the 1990s. But in the
 5 last few years, available supplies for both natural gas and petroleum fuels have been much
 6 tighter, resulting in sharply higher market prices and rapidly increasing expectations for higher
 7 prices well into the future.

8 Coal prices, on the other hand, are based much more on domestic mining and
 9 transportation costs, and are influenced heavily by trends in labor costs and mining productivity.
 10 Price forecasts for coal have generally trended downward since the 1980s, as improvements in
 11 labor productivity and rail rates have exceeded earlier expectations.

12 Because of these trends, the forecasted price differential between coal and natural gas is
 13 widening, weakening natural gas's ability to be a competitive long-run fuel for power generation.

14 **Q: How do these risk factors affect South Dakota consumers?**

15 A: For South Dakota consumers, higher energy prices can have many effects. One of the
 16 most direct effects is that the income diverted into higher power bills is no longer available to
 17 meet other household uses. With less disposable income, other activities must be curtailed,
 18 including some that promote better health and safety. This is particularly true in lower income
 19 households, where just meeting the basic necessities can consume most, if not all, available
 20 income. Reductions in disposable income result in higher health and safety risks.

21 There is also research that has been conducted that has explored the relationship between
 22 energy price shocks and unemployment. Apart from the average long-term effects of higher

1 energy prices, the volatility of those prices can further perturb the economy and heighten
2 unemployment.

3 Residential energy consumption data shows that households in South Dakota and other
4 West North Central states consume greater-than-average quantities of energy relative to other
5 states and regions, possibly due to greater heating requirements. In addition, these households
6 generally have a higher fraction of their energy needs met by natural gas and petroleum fuels,
7 with the result that the per-household consumption of these fuels is substantially higher than in
8 most other states. Accordingly, South Dakota households could be doubly sensitive to gas price
9 volatility – both in the direct gas consumption for households and for the higher costs of gas-
10 fired generation. Hence, coal use would not only be less volatile as a power generation source,
11 but would also help to moderate price spikes in other parts of a family's energy budget.

12 **Q: How is your testimony organized?**

13 **A:** My testimony is divided into two sections. The first section examines the volatility of
14 natural gas prices as compared with coal prices. This section shows that investment in a
15 generation resource utilizing natural gas as a fuel poses far greater generation cost risks than the
16 same investment in a generation resource utilizing coal. The second section examines the
17 consequences to South Dakota households if a riskier form of electric generation is chosen and
18 such risk results in higher energy prices. This section shows that the higher energy prices will
19 have detrimental effects on both the economic well-being and the health of South Dakota
20 households.

1 **II. VOLATILITY IN FOSSIL FUEL PRICES**

2 **II(A). OVERVIEW OF VOLATILITY AND FUEL PRICE ISSUES**

3 **Q: What does "volatility" mean in the context of energy prices?**

4 **A:** "Volatility" refers to the degree to which prices may rise or fall over a period of time. In
 5 an efficient market, prices will normally incorporate known and anticipated present and future
 6 circumstances of supply and demand. Similarly, changes in market prices will tend to reflect
 7 changes in what we collectively know or anticipate.

8 When market prices tend to change a lot over relatively short time periods, the market is
 9 described as having a high degree of volatility. Conversely, relatively stable prices are associated
 10 with low volatility.

11 In electric power markets, generation assets represent huge investments, typically
 12 hundreds of millions if not billions of dollars. The ability of those investments to return, and earn
 13 a return on, capital depends upon the ability of the generation to produce power and sell it at a
 14 viable price. With fossil fuel costs representing a substantial portion of the total cost of
 15 producing power, and with economic dispatch principles exposing high-cost generators to idle
 16 operations, electric power companies are extremely sensitive to fluctuations in fossil fuel prices.

17 Hence, volatility in prices creates uncertainty and risk. Generally, firms and individuals
 18 are risk-averse, in that there is a willingness to give up a portion of the expected benefits in order
 19 to achieve greater certainty that those benefits will be achieved. This is a basic principle of
 20 insurance and risk management, and is a cornerstone underlying modern portfolio theory.

21 Electric power producers will typically make serious efforts to mitigate the financial risk
 22 of volatile fuel prices. Such steps may include long-term supply contracts, and financial options
 23 and futures. However, these types of actions do not eliminate the inherent risk of price volatility;

1 they merely transfer the risk to other parties. This transference of risk is achieved at a cost, and
 2 the electric power producer will consider such risk mitigation costs as part of making fuel
 3 choices.

4 Further, it is not possible to transfer all of the financial risk of volatile fuel prices. Power
 5 generation assets are extremely long-lived, typically expected to be productive for several
 6 decades. Most options and futures markets provide hedging opportunities for no more than a few
 7 years. Even long-term fuel supply contracts will tend to contain provisions for price adjustments
 8 over time. Hence, the electric power producer will not be able to mitigate completely all fuel
 9 price risks, and fuels with more volatile prices will continue to pose greater financial risks.

10 **Q: Why is price volatility important?**

11 **A:** We live in a market economy, where prices move up and down in response to changes in
 12 supply and demand. Some amount of price volatility is, therefore, an inevitable consequence of a
 13 market-based economy.

14 But price volatility carries a cost. Volatility matters for all consumers and producers in
 15 the economy. Just as a car gets worse mileage when driven in stop-and-go conditions, price
 16 volatility induces actions that collectively cause a weaker-performing economy. Volatility in
 17 prices creates market uncertainties. Since consumers and companies make purchase and
 18 investment decisions based on expectations about prices, higher volatility increases the
 19 likelihood of making decisions that turn out poorly. Risk premiums increase to compensate for
 20 higher volatility. Volatile prices can also affect labor markets, increasing temporary layoffs or
 21 prompting surge hiring.

22 The U.S. Department of Energy's Energy Information Administration (EIA) is a
 23 statistical agency created by Congress in 1977 to provide policy-independent data, forecasts, and

1 analyses. EIA recently undertook an analysis of the effect of energy price volatility vis-à-vis
2 steady energy prices. Their findings were published as "Energy Price Impacts on the U.S.
3 Economy" (April 2001, at http://www.eia.doe.gov/oiaf/economy/energy_price.pdf). This
4 analysis was undertaken in response to the two years of rapidly falling oil prices in 1997 and
5 1998, followed by two years of rapidly rising prices. To assess the economic impacts of these
6 rapidly changing energy prices, EIA compared two cases: (1) The "Volatile Energy Price" case
7 mimicked the energy price percent changes seen from the period between 1997:1 to 2001:1,
8 including the prices movements for petroleum, natural gas, coal and electricity and (2) The
9 "Steady Energy Price" case assumed steady energy prices throughout the four-year period.

10 EIA's analysis examined what the impact would be on the growth of the economy if
11 energy prices had remained steady throughout the four-year period from 1997:1 to 2001:1,
12 compared to the roller coaster path they actually took. As hypothesized, the falling energy prices
13 boosted economic growth, while the subsequent price jumps dampened growth. Less expected
14 was the finding that this was not a zero-sum game. The falling energy prices in 1997-1998
15 boosted the economy by about 0.3 percentage points. However, rising prices in 1999-2000
16 dampened GDP growth by as much as 0.7 percentage points. Over the entire four-year period, a
17 steady energy price path could have potentially boosted GDP growth by 0.2 percentage points
18 compared to the volatile price path. EIA concluded that all other things equal, the economy
19 would most likely perform better with stable or predictable energy prices than when the price of
20 energy fluctuates greatly.

21 Several other studies have also examined relationships between price volatility and
22 broader economic impacts. Ben S. Bernanke, now Chairman of the Federal Reserve Board, in a
23 1980 paper titled "Irreversibility, Uncertainty, and Cyclical Investment" (NBER Working Paper

1 No. 502, July 1980), examined the optimal timing of real investment when those investments
 2 were irreversible and when new information about the future returns would be arriving over
 3 time. Bernanke concluded that uncertainty retards the current rate of investment because it
 4 increased the value of waiting for new information. In a 1996 analysis titled "Oil Price Volatility
 5 and the Macroeconomy" (Journal of Macroeconomics, Winter 1996, Vol. 18, No. 1, pp. 1-26), J.
 6 Peter Ferderer found that both oil price changes and oil price volatility have different and
 7 negative impact on output growth, and that price changes up and down have asymmetric effects.

8 **Q: How is volatility measured?**

9 A: "Volatility" and "risk" mean different things to different people, and different approaches
 10 have been developed to express this. For some, volatility is best understood by visual
 11 comparisons, charting prices and price changes over time. For others, volatility can be
 12 represented by the occasional "big event" – a maximum one-day loss, or the biggest year-to-year
 13 change.

14 A useful and common way of measuring price volatility is the use of the statistical
 15 function known as the "standard deviation." The standard deviation is a measure of how widely
 16 numbers are spread out from the average value (the mean) of a population. The standard
 17 deviation is calculated as the square root of the "variance," which in turn is computed as the
 18 average squared deviation of each number from its mean.

19 The standard deviation is always a positive number and is always measured in the same
 20 units as the original data. A relatively large value indicates that the data points tend to be
 21 dispersed far from the mean, while a small value indicates that they are clustered closely around
 22 the mean. When the data are normally distributed (a "bell curve" distribution), the standard
 23 deviation helps describe the likelihood and magnitude of outliers. In a normally distributed

1 population, a little over two-thirds (about 68.26%) of the values will fall within one standard
2 deviation away from the mean, and about 95 percent (95.46%) of the values are within two
3 standard deviations. The range of two standard deviations about the mean is a commonly-used
4 benchmark for statistical significance, and is often referred to as the "95-percent confidence
5 interval."

6 Many people – particularly those in the financial community – prefer a more quantitative
7 formulation of "volatility" that can then be used in various option pricing models and portfolio
8 analyses. Most commonly, volatility is measured as the standard deviation of an asset's rate of
9 return relative to "the market" rate of return. Over some time frame (e.g., days, months, or
10 hours), the returns of the asset relative to the market are measured and used in the statistical
11 calculation of standard deviation. The greater the standard deviation, the higher the volatility.

12 Even within this frequently-used approach of calculating standard deviations, there are
13 several variations. As noted above, the frequency of the measurement period (e.g., days, months,
14 or hours) and the length of time over which observations are made can vary. Volatility can also
15 be measured historically by examining past data, or prospectively by looking at futures markets
16 and forecasts.

17 Ultimately, there is no single "right" approach; the appropriate method depends upon the
18 questions being considered. Some questions may call for an understanding of the average
19 variability within the data, and others may be focused on the extreme outliers. For my purposes
20 here, the set of questions posed and the variety of tools used to answer them collectively build to
21 my findings that coal prices are much less volatile than other fossil fuels, and that this is turn
22 confers benefits for its use. Accordingly, highly quantitative calculations of fuel price volatility
23 may be informative, but are not necessarily required.

1 Q: What factors drive changes in energy prices?

2 A: Like other commodities, prices for fuels are set largely by forces of supply and demand.
3 But the factors affecting coal prices are very different from those affecting oil and gas, and this
4 has important implications for fuel price volatility.

5 The U.S. has vast reserves of coal. Its major market is the U.S. electric power sector.
6 High transportation costs limit international traffic, while environmental concerns and ease-of-
7 use considerations limit coal's role in other sectors. Relatively abundant supply and predictable
8 growth tend to make for a steady market, especially in the longer-term. Longer-term prices tend
9 to be set by mining and transportation costs, which tend to change slowly over time in response
10 to changes in productivity, labor costs, technology, and other factors.

11 Petroleum prices are set in a world market. The U.S. is a relatively high-cost oil producer
12 with a gradually diminishing share of world production. World reserves and production are
13 concentrated in relatively few regions, often with state-controlled production and other limits to a
14 full and free market. For the past few years, world demand has been growing faster than new
15 productive capacity, with the result that there is now very little if any excess capacity globally.
16 With relatively inelastic supply and demand, world oil prices are highly volatile, responding to
17 changes in international economic growth, weather, infrastructure, world politics and much
18 more.

19 Natural gas was once seen as a regional or national fuel, but increasingly trades on a
20 world market. To some extent, oil and gas prices have long been linked by market competition
21 and contract pricing provisions. However, more recently the global market for liquefied natural
22 gas (LNG) has begun to expand at a rapid rate. As this global market evolves and grows, we

1 should expect gas and oil prices to become more tightly linked, with regional differences in gas
 2 prices mainly reflecting transportation cost differences.

3 II(b). ANALYSIS OF FUEL PRICE VOLATILITY

4 **Q: What types of energy prices did you examine?**

5 A: I examined three types of data: historical price data, futures market data, and price
 6 forecast data. Each of the data sets confirms the greater volatility of natural gas prices, and
 7 therefore their greater price risk relative to coal. I will discuss each of these in turn.

8 II(b)(1). HISTORICAL PRICE DATA

9 **Q: Please describe your analysis of historical price data.**

10 A: I first examined annual data on electric utility fuel purchases and average residential rates
 11 over the time period 1973-2005. These data are collected and reported by the Energy Information
 12 Administration (EIA) of the U.S. Department of Energy.

13 For fossil fuels, the data series of primary interest were the average annual cost of coal,
 14 natural gas, and oil received at electric generating plants. These averages are expressed in dollars
 15 per million Btu (\$/MMBtu), including taxes. By quantity, coal is by far the largest fossil fuel
 16 input for electricity, followed by natural gas. Petroleum is presently a distant third, although
 17 previously it had a larger market share. To remove the effects of general price inflation over this
 18 period, I have adjusted these price series by the Gross Domestic Product (GDP) Implicit Price
 19 Deflator, so that all prices can be compared on a basis of constant year 2000 dollars.

20 For the same 1973-2005 time period, I then tabulated EIA data for the average retail price
 21 of electricity for the residential sector. These averages are presented in units of cents per
 22 kilowatt-hour (kWh), including taxes. Here, too, the GDP Implicit Price Deflator was used to
 23 adjust the price series so that all prices can be compared on a constant 2000\$ basis.

1 **Q: What patterns did you see concerning fossil fuel costs and electric rates?**

2 A: Table 1 presents the data developed for this comparison. The key time series are charted
 3 in Figure 1, graphing the average fossil fuel prices and residential electricity prices (in real
 4 2000\$) over the 1973-2005 time period. Several important points can be seen in Table 1 and
 5 Figure 1:

- 6 • The real (inflation-adjusted) price of coal shows a relatively steady pattern, with small
 7 year-to-year changes and a general downward trend over time.
- 8 • The real (inflation-adjusted) prices for oil and gas show much greater year-to-year
 9 fluctuations, with average prices in some years being more than \$1.00/MMBtu higher or
 10 lower than the previous year's average price.
- 11 • The real price trend for average residential electric rates generally tends to parallel that
 12 seen for coal prices, with modest year-to-year price changes. The primary departures
 13 from the coal price trend appear to be in the form of moderate upward bumps in average
 14 residential electric rates in the mid-1970s, early 1980s, and early 2000s. (Note that while
 15 the trend for residential electric rates may appear "bumpier" and therefore more volatile
 16 than coal, the absolute levels are higher and this makes the annual changes smaller on a
 17 percentage basis.)
- 18 • The upward bumps seen in average residential electric rates appear to coincide with price
 19 spikes seen for oil and/or gas during those periods.

20 **Q: How much volatility can be seen in the historic energy price data?**

21 A: The relatively greater volatility seen in natural gas and oil prices can also be quantified
 22 using standard statistical approaches, particularly the standard deviation. However, since the data
 23 are in a time series, the observations are not independent, in that the price at the beginning of a

1 year is the ending price of the previous year. Because of this autocorrelation, a commonly-used
2 approach is to analyze the price changes from one period to the next, rather than the absolute
3 price level. These changes can be expressed either as the absolute price change in each period or
4 as the percentage change over the last period.

5 Table 2 calculates the year-by-year changes from the price and cost levels seen in Table
6 1, and calculates the standard deviations of these changes. These calculations were made in real
7 terms (inflation-adjusted 2000 dollars), and clearly show the higher volatility of oil and gas
8 prices relative to coal, both on an absolute and percentage basis:

- 9 • The average residential electric price showed relatively small year-to-year changes. The
10 annual changes over the 1973-2005 period indicated a standard deviation of only 3.7
11 percent, and 0.32 cents per kWh. The 95 percent confidence interval for these annual
12 changes would be plus-or-minus 0.64 cents per kWh.
- 13 • Coal prices showed the smallest year-to-year changes among the fossil fuels. The annual
14 changes over the 1973-2005 period indicated a standard deviation of only 11.6 percent,
15 and \$0.16 per MMBtu. The 95 percent confidence interval for these annual changes
16 would be plus-or-minus \$0.32 per MMBtu.
- 17 • Petroleum prices showed the largest year-to-year changes among the fossil fuels. The
18 annual changes over the 1973-2005 period indicated a standard deviation of 30.0 percent,
19 and \$1.08 per MMBtu. The 95 percent confidence interval for these annual changes
20 would be plus-or-minus \$2.16 per MMBtu, substantially more than the entire average
21 cost of coal.
- 22 • Natural gas prices also showed large year-to-year changes. The annual changes over the
23 1973-2005 period indicated a standard deviation of 20.6 percent, and \$0.67 per MMBtu.

1 The 95 percent confidence interval for these annual changes would be plus-or-minus
 2 \$1.34 per MMBtu, about equal to the entire average cost of coal.

3 From this analysis we can easily conclude that the historical prices for natural gas have
 4 been far more volatile than the prices for coal, both on an absolute as well as a percentage basis.

5 II(b)(2). FUTURES MARKET DATA

6 **Q: Please describe your analysis with respect to futures markets.**

7 A: Data from futures markets confirm that oil and gas prices are highly volatile and
 8 unpredictable as compared with coal prices. As part of my analysis, I examined data from the
 9 New York Mercantile Exchange, Inc. (NYMEX), the world's largest physical commodity futures
 10 exchange. NYMEX pioneered the development of energy futures and options contracts over 25
 11 years ago, bringing price transparency and risk management to these markets. Hedgers use the
 12 futures to help stabilize the revenues or costs of their business operations because they have an
 13 offsetting position in the physical market. Other investors seek to profit from market movement
 14 because they do not have offsetting physical positions, and in doing so provide the liquidity
 15 hedgers need to take positions.

16 NYMEX trades several energy commodity futures, including light sweet crude oil,
 17 natural gas, electricity, and coal. Crude oil and natural gas markets are particularly active, and
 18 allow investors at any time to speculate or hedge on the prices, by month, up to five or six years
 19 into the future. If one looks at the futures price for natural gas, as an example, one sees in
 20 essence the marketplace's consensus forecast for monthly prices over the futures period, taking
 21 into account the various expectations of supply, demand, seasonal factors, and other
 22 considerations.

1 For my purposes here, it is more instructive to examine futures contracts near the end of
2 their lifetime. For example, Figure 2 presents the price histories for futures contracts for natural
3 gas and light sweet crude oil expiring May 6, 2006. The histories show not only the general rise
4 in prices over the past couple of years, but also the extreme volatility seen in rapidly changing
5 expectations in turbulent market times.

6 • For natural gas, futures contracts expiring in May 2006 could have been purchased for
7 under \$4.00 per MMBtu in early 2003. But these futures contracts turned out not to be an
8 accurate forecast of the actual future price of natural gas. Prices have generally soared
9 since 2003, peaking at over \$14 per MMBtu during the last half of 2005. Mild winter
10 weather and other factors have acted to bring prices down sharply since then, but at
11 recent prices still over \$6 per MMBtu, this futures contract is still far above its price of
12 just a few years ago.

13 • For light sweet crude oil – the world's most actively traded commodity – futures
14 contracts expiring in May 2006 could have been purchased for under \$40 per barrel in
15 late 2004. By about August 2005, prices had climbed to about \$70 per barrel, then fell to
16 below \$60 per barrel, and has since been up and down in the \$60-\$70 per barrel range.
17 With crude oil having an energy content of about 5.8 MMBtu per barrel, a \$10 per barrel
18 change in price is equivalent to about \$1.72 per MMBtu price change.

19 As was seen in Table 1, the average price of coal for electric generating plants has
20 remained under \$2.00 per MMBtu since before 1990. Hence, just the changes in prices for oil
21 and natural gas futures in the past couple of years have been greater than the entire price of
22 delivered coal.

1 II(b)(3). FUEL PRICE FORECASTS

2 **Q: Please describe your analysis with respect to recent forecasts of fossil fuel prices?**

3 A: A review of current and historical price forecasts also confirms the highly volatile nature
4 of natural gas and oil prices as compared with coal prices.

5 Among the most widely known and read forecasts of energy markets is the Annual
6 Energy Outlook, published annually by the Energy Information Administration. The Annual
7 Energy Outlook (AEO) develops detailed year-by-year projections of U.S. energy markets.
8 EIA's most recent set of forecasts – AEO 2006 – includes energy projections out to the year
9 2030.

10 The Reference Case projections of AEO 2006 are based on Federal, State, and local laws
11 and regulations in effect on or before October 31, 2005. As such, they may best be thought of as
12 a “business-as-usual” scenario, and not necessarily a prediction that includes a best guess on
13 future policies. AEO 2006 also develops other scenarios to test the sensitivity of key parameters.

14 Table 3 shows the Reference Case price forecasts from AEO 2006. These prices show
15 year-by-year forecasts through the year 2030 for fossil fuels (petroleum, natural gas, and coal)
16 delivered to the electric power sector. The AEO 2006 prices were published in units of 2004
17 dollars per MMBtu, and so I have converted them into year 2000 dollars (using the GDP Implicit
18 Price Deflator) in order to facilitate comparability with other information presented herein.
19 Figure 3 presents some of the key AEO 2006 forecasts in graphical form. From Figure 3 and
20 Table 3, several important aspects of the AEO 2006 forecasts can be observed:

- 21 • For both natural gas and oil, EIA is forecasting price declines from the sharp spikes
22 experienced in 2005. Forecast prices are seen as declining \$1 to \$3 per MMBtu through

1 the period 2010-2015, and then resuming a gradual yet steady upward climb through the
 2 year 2030.

3 • Throughout most of this period, oil and gas prices move roughly in parallel. The oil price
 4 is seen as higher, as the power sector's average includes both distillate and residual fuel.
 5 Prices for residual fuel and natural gas are forecast as usually being within 10 percent of
 6 each other on a national average.

7 • Steam coal prices show very little price movement over this forecast period. Over the
 8 entire 2003-2030 period, coal prices fluctuate by less than \$0.20 per MMBtu, and rarely
 9 more than \$0.03 per MMBtu in any given year. By comparison, annual fluctuations in
 10 prices for oil and gas are often 10 times more than those for coal.

11 • EIA's report notes that the prices in the AEO 2006 reference case reflect a shift in their
 12 thinking about long-term trends in oil markets. World oil markets have been extremely
 13 volatile for the past several years, and EIA now believes that their previous price
 14 forecasts did not fully reflect the causes of that volatility and the implications for long-
 15 term average oil prices. Gas prices also reflect updated thinking on growing demands, gas
 16 production potential from domestic sources and unconventional sources, and new imports
 17 of LNG. The rapid growth of LNG imports is particularly significant, as these supplies
 18 compete on the world market and are often tied directly to crude oil prices.

19 EIA also develops alternative projections from its Reference Case forecasts in AEO
 20 2006, using scenarios named "High Price" and "Low Price." The scenarios vary mainly by
 21 incorporating different assumptions about the size of the world and U.S. resource bases for oil
 22 and gas, usually plus or minus 15 percent from the Reference Case. Figure 4 summarizes the key
 23 price projections for the electric power sector fossil fuel prices:

- 1 • Petroleum prices are extremely uncertain, and modest changes (15%) in resource
 2 assumptions have a dramatic effect on long-term prices. By 2030, the high petroleum
 3 prices for the electric power sector are nearly triple those of the low price case, and vary
 4 by nearly \$8 per MMBtu.
- 5 • Natural gas prices also span a substantial range, but less than those for petroleum. By
 6 2030, the high natural gas prices for the electric power sector are almost half again as
 7 high as in the low price case, a difference amounting to more than \$2.00 per MMBtu.
- 8 • Coal prices show little change in prices. While the higher oil and natural gas prices serve
 9 to boost demand for coal and increase its costs for production and transportation, these
 10 effects on the vast U.S. coal resource base are modest. By 2030, the high coal prices for
 11 the electric power sector are less than 20 percent higher than in the low price case, a
 12 difference amounting to only \$0.21 per MMBtu. Here, too, the price sensitivity of coal is
 13 less than one-tenth that of petroleum and natural gas.

14 **Q: What can we learn by comparing past forecasts to more recent ones?**

15 A: Forecasts are only predictions of the future, not guarantees. Forecasts are made by
 16 imperfect humans using imperfect data and an imperfect understanding of how they all connect.
 17 Unexpected events, changes in laws and regulations, and new interactions within the economy
 18 will all act to steer the future in different directions from our earlier predictions. Even the largest,
 19 most impartial, and most experienced efforts at forecasting energy markets, such as EIA's
 20 Annual Energy Outlook, will in hindsight be seen to have "missed" in various ways.

21 EIA first published the Annual Energy Outlook in 1982, and the AEO 2006 marked the
 22 25th annual edition. In early 1982, the world was facing near-record high oil prices, high
 23 inflation, and a stumbling economy. The 25 years since then have seen dramatic and often

1 unexpected changes in technologies, economic structure, world politics and trade, and much
 2 more. The set of AEOs published over this period serve as an archive of then-contemporaneous
 3 expert thinking as to how all of these factors would shape the future of energy supply, demand,
 4 and prices. This archive shows that the expert predictions often missed dramatic shifts in oil and
 5 gas prices.

6 For my analysis here, I compiled information from each of the 25 AEOs published over
 7 the 1982-2006 period. Specifically, I recorded from each AEO the price forecasts for petroleum,
 8 natural gas, and coal delivered to electric generators over the forecast period. AEO generally
 9 publishes its forecasts in 5-year increments; for example, the AEO 1982 published forecasts for
 10 1985 and 1990, while the AEO 2006 publishes for 2010, 2015, 2020, 2025, and 2030. (I note that
 11 some of the AEOs also publish forecasts for some of the intervening years, but this is not
 12 consistent over the publication's history.) Also, because each AEO published prices in varying
 13 year dollars (e.g., the AEO 1982 expressed prices in 1982 \$/MMBtu, while the AEO 2006
 14 expresses prices in 2004 \$/MMBtu), it was necessary to convert each price series into year 2000
 15 dollars, using the GDP Implicit Price Deflator.

16 Table 4 presents this 25-year set of AEO forecasts for (A) petroleum, (B) natural gas, and
 17 (C) coal prices delivered to electric power generators. While the tables are dense with
 18 information, they reveal a wealth of insight regarding a quarter-century's worth of expectations
 19 regarding future fossil fuel markets. First, let us take each fuel in turn:

- 20 • Petroleum prices (Table 4a) in the early 1980s were at record highs, and expectations
 21 were widespread that prices would continue rising into the future. However, that did not
 22 happen. As the 1980s progressed, oil shortages eased, and prices and price projections
 23 moved lower. By the late 1980s and early 1990s, talk of an "oil glut" continued to push

1 forecasts increasingly lower. After 2000, this trend began to reverse itself, and since then
 2 forecasts have been trending increasingly upwards, but none of EIA's forecasts captured
 3 the very high prices being experienced today. Most recently, the AEO 2006 forecasts
 4 project a future petroleum price path that is about 30 to 40 percent higher than forecasts
 5 made just a year ago.

6 • Natural gas price forecasts (Table 4b) made over the past 25 years generally parallel
 7 those made concurrently for petroleum. Significantly, none of EIA's Annual Energy
 8 Outlooks made over the years have been able to foresee the recent dramatic escalation in
 9 natural gas prices. Indeed, in AEO 1995 through AEO 2003, natural gas price forecasts
 10 to electric generators for 2005 all came in at under \$4.00 per MMBtu (in year 2000 \$),
 11 and usually substantially less. Actual data for 2005 (EIA Monthly Energy Review, April
 12 2006, Table 9.11, page 137) now show that the actual price averaged \$8.45 per MMBtu,
 13 equal to \$7.59 per MMBtu in year 2000 \$. In other words, natural gas prices are so
 14 volatile that for the past decade, the nation's leading energy forecasting agency
 15 underestimated current natural gas prices by half.

16 • Coal price forecasts (Table 4c) have generally declined for the past 25 years. Whereas
 17 petroleum and natural gas price forecasts have always been more volatile and driven by
 18 various world events, coal price forecasts have always tended to be dominated by the
 19 enormous domestic coal reserves and relatively elastic, or "flat," coal supply curves. And
 20 unlike petroleum and natural gas price forecasts that almost always show higher prices in
 21 the out-years, coal price forecasts will sometimes show declining long-term prices,
 22 depending upon the assumptions made regarding future labor costs, mining productivity,
 23 and other costs.

1 These compilations of AEO forecasts can also be examined from another angle by
2 looking at the volatility of the forecasts themselves from year-to-year. This can be done by
3 charting year-over-year changes in price forecasts for a single year. For the year 2010, for
4 example, we can see how expectations shifted as the long term grew closer. The EIA first began
5 making projections to the year 2010 in its AEO 1990, and they continue to include that as one of
6 its target years. By charting 2010 fuel price forecasts from the various AEO publications made
7 1990 to 2006, we can in effect simulate NYMEX commodity futures, but in this case over a
8 much longer period of time.

9 Figure 5 presents four charts showing fuel price forecasts for the years 2000, 2005, 2010,
10 and 2020. Each chart uses all of the available AEO publications, and simultaneously shows
11 petroleum, natural gas, and coal price forecasts to electric generators. Like the charts of the
12 NYMEX commodity futures, we can see how expectations of prices at a specific end-date
13 changed as that end-date drew closer:

- 14 • For petroleum and natural gas for the forecast target years 2000 and 2005, end-year price
15 projections generally fell over the periods spanned by the AEOs. These forecasts were
16 made over a period of generally falling or stable market prices, and each year the
17 forecasters incorporated more of that pattern into their future projections.
- 18 • For petroleum and natural gas for the forecast target years 2010 and 2020, we can
19 observe end-year price projections generally falling through the early and mid-1990s. By
20 the late 1990s and continuing today, AEO projections began showing gradually higher
21 price forecasts for 2010 and 2020, with substantially higher estimates made in the past
22 couple of years.

- 1 • Coal prices show a very stable set of price projections for all four of the forecast target
 2 years shown. During much of the 1990s, actual coal mining productivity continued to
 3 exceed expectations, and forecasts increasingly reflected these mining cost reductions.
- 4 • Over the “commodity futures” period, both petroleum and natural gas show very high
 5 volatility. The highest price points are two to three times that of the lowest, with the
 6 future price for each fluctuating by several dollars per MMBtu.
- 7 • Coal prices, in contrast, show relatively little volatility over the “commodity futures”
 8 period. The highest price points are about twice those of the lowest, reflecting a more
 9 pessimistic view of coal mining costs in the earlier years of the AEO. But because coal
 10 prices are so much lower than petroleum and natural gas, the future price for coal
 11 fluctuates by no more than about \$1.50 per MMBtu over the forecast period.

12 **Q: What do you conclude from your review of fuel price forecasts?**

13 A: Historically, oil and gas prices are far more subject to market vicissitudes than coal
 14 prices. Thus, the 1970s and early 1980s were a turbulent time for petroleum and natural gas
 15 supplies, characterized by expectations of high prices well into the future. Through the mid-
 16 1980s and most of the 1990s, the market outlook brightened for consumers, and petroleum and
 17 natural gas price forecasts trended progressively lower. In the last few years, however, available
 18 supplies for both fuels have been much tighter, resulting in sharply higher market prices and
 19 rapidly increasing expectations for higher prices well into the future.

20 Coal price expectations, on the other hand, are based much more on domestic mining and
 21 transportation costs, and are influenced heavily by trends in labor costs and mining productivity.
 22 Price forecasts for coal have generally trended downward since the 1980s, as improvements in
 23 labor productivity and rail rates have exceeded earlier expectations. Because of these trends, the

1 forecasted price differential between coal and natural gas is widening, weakening natural gas's
 2 ability to be a competitive long-run fuel for power generation.

3 **Q: Please summarize your conclusions on the overall volatility of fossil fuel prices.**

4 A: In addition to the trends in fuel prices – both historic and forecast – the greater price
 5 volatility of natural gas and petroleum should be taken into account. Using several quantitative
 6 and qualitative measures of volatility, it is clear that both natural gas and petroleum have a very
 7 volatile price path, whereas coal shows a much lower volatility. This difference in volatility is
 8 evident not only as a percentage of price, but given coal's much lower price to begin with,
 9 volatility as measured by changes in \$ per MMBtu shows a dramatic advantage for coal.

10 **III. EFFECTS ON THE PUBLIC OF FUEL PRICE VOLATILITY LEADING**
 11 **TO HIGHER COSTS**

12 **Q: What issues do you address in this section of your testimony?**

13 A: This part of my analysis examines some of the consequences that would result from fuel
 14 selection choices that increase exposure to volatility and high prices. I examine both the
 15 economic consequences of higher energy prices and, because wealth is directly correlated with
 16 health, the health consequences of higher energy prices. These economic and health
 17 consequences are both risks that must be considered in determining whether Big Stone Unit II
 18 should be built or replaced by an alternative type of power supply.

19 **III(a). ECONOMIC CONSEQUENCES**

20 **Q: Why are higher prices for fossil fuel a matter of concern?**

21 A: For an electric power company, higher fuel prices means higher costs for generating
 22 power. Ultimately, these costs are recovered from the customers in the form of higher rates.
 23 Money now spent on higher power prices is no longer available for households to spend on food,

1 housing, education and other purposes. As discussed below, for many, this drop in household
 2 disposable income will affect health, safety, and mortality.

3 **Q: How significant is this likely to be in the context of Big Stone Unit II?**

4 A: Quite significant. Since a 600 MW unit consumes such large quantities of fuel, even
 5 small changes in fuel prices amount to very large changes in annual costs. For illustration,
 6 assume that if instead of coal, a natural gas combined cycle (NGCC) plant was proposed. If the
 7 NGCC plant was 600 MW, had a 7200 Btu/kWh heat rate, and operated at an 80 capacity factor,
 8 then each year it would generate about 4.2 million MWh and consume about 30 million MMBtu
 9 of gas. For this single unit, then, a change in gas prices of only \$0.01 per MMBtu over the course
 10 of a year would change total costs by about \$300,000. If future natural gas prices are uncertain
 11 by \$1.00 per MMBtu (or more), then total annual costs for a gas-fueled alternative to Big Stone
 12 Unit II may vary by tens of millions of dollars per year.

13 **Q: What impact do higher fuel prices have on the economy?**

14 A: Higher energy prices can become a drag on the economy, boosting inflation rates and
 15 slowing overall economic activity. Energy expenditures are a large part of our economic activity,
 16 and higher prices quickly show up in national inflation indices. When energy prices are sustained
 17 at high levels, they begin to affect the core inflation rate (the rate that excludes energy and food)
 18 through their continued pressure on the prices of other commodities, transportation, and other
 19 energy-intensive goods.

20 Historically, high energy prices have had adverse effects on the economy. Looking from
 21 the 1970s forward, there are observable and dramatic changes in GDP growth as the world oil
 22 price has undergone dramatic change. The price shocks of 1973-74, the late 1970s/early 1980s,
 23 and early 1990s were all followed by recessions, which were then followed by a rebound in

1 economic growth. The pressure of energy prices on aggregate prices in the economy created
2 adjustment problems for the economy as a whole. As shown in Figure 6, these relationships
3 among energy prices, inflation, and GDP growth have been explored by the Energy Information
4 Administration and others. As can be seen, energy prices have correlated closely with inflation,
5 and are inversely correlated with growth in Gross Domestic Product (GDP).

6 These relationships to economic growth can also be observed in forecasts. Each year, as
7 part of the Annual Energy Outlook forecasts, the Energy Information Administration develops
8 alternative scenarios with higher and lower world oil prices. In the Low Price scenario, for
9 example imported crude oil prices are \$37.00 per barrel in the year 2010, compared to a \$43.99
10 per barrel reference case price. The effect on GDP in 2010 is about \$60 billion, where the lower
11 oil price leads to an extra 0.5 percent in GDP (AEO 2006, Tables C-1, C-2).

12 To some, these effects of higher fuel costs may seem minor and certainly manageable.
13 But to those households with lower income, energy prices can constitute a crushing burden. A
14 recent paper titled "Energy Cost Burdens on American Families" (Eugene M. Trisko, for
15 Americans for Balanced Energy Choices, October 2005,
16 [http://www.ceednet.org/docs/ABEC%20Member%20Documents/Energy%20Price%20Impact%
17 20Study.pdf](http://www.ceednet.org/docs/ABEC%20Member%20Documents/Energy%20Price%20Impact%20Study.pdf)) used federal government data to analyze the effects of 2005 prices for residential
18 and transportation energy. Trisko found that overall, the 56 percent of American families with
19 incomes of \$50,000 or less (totaling 63 million families) will spend 20 percent of their pre-tax
20 income on energy in 2005. In contrast, households with family incomes greater than \$50,000
21 will spend only five percent of their gross incomes for residential and transportation energy.

1 Q: Are Big Stone Unit II customers at greater than average risk for fuel price
2 volatility?

3 A: Yes. In addition to electricity, we use substantial amounts of natural gas and petroleum in
4 the residential sector, plus modest amounts of wood and other renewables. Nationally, this direct
5 consumption of natural gas and petroleum in the residential sector is substantially greater than
6 the electrical energy consumed. It follows that if this non-electric residential energy consumption
7 is weighted heavily toward price-volatile energy sources, then the reliance upon those same
8 energy sources for Big Stone Unit II could exacerbate the overall volatility risks for South
9 Dakotans.

10 Households in South Dakota and other West North Central states have higher than
11 average consumption of natural gas and petroleum. This greater consumption is largely related to
12 higher winter heating needs that largely utilize natural gas and petroleum fuels. Using data on
13 heating and cooling degree-days, as reported by the Energy Information Administration, we can
14 see that the West North Central region (comprised of Iowa, Kansas, Minnesota, Missouri,
15 Nebraska, North Dakota, and South Dakota) is substantially colder than average in the winter,
16 and somewhat warmer on average in the summer (DOE/EIA Annual Energy Review 2004,
17 Tables 1.9 and 1.10, at <http://www.eia.doe.gov/emeu/aer/>). For heating degree-days over the
18 1971-2000 period, the West North Central region averaged more heating degree-days than any
19 other Census region, 49.2 percent higher than the U.S. average. Conversely, the somewhat
20 cooler-than-average summers led to the West North Central having 23.6 percent fewer cooling
21 degree-days than the U.S. average.

22 Whereas summer cooling needs are typically met using electricity-driven air conditioners
23 and fans, winter heating needs are more often met by direct household use of natural gas and

1 petroleum fuels. It would tend to follow that the colder regions of the country would have greater
2 household consumption of natural gas and petroleum fuels.

3 The Energy Information Administration, in its periodic Residential Energy Consumption
4 Survey (RECS), develops state-wide estimates of energy consumption by type of fuel. EIA's
5 most recent published estimates are for calendar year 2001. By dividing these estimates by the
6 number of housing units in these states for 2001 (using Census Bureau data), we can attain per-
7 household estimates of energy consumption, by state and by type of fuel.

8 Table 5 summarizes these per-household calculations of residential energy use. As can be
9 seen, South Dakota had both a higher-than-average consumption of non-electrical residential
10 energy consumption and a greater proportion of that as natural gas and petroleum fuels. For non-
11 electric energy consumption, the average South Dakota household in 2001 consumed 62.6
12 MMBtu, compared to the national average of about 58.5 MMBtu per household. For natural gas
13 and petroleum fuels, the average South Dakota household in 2001 consumed 59.0 MMBtu, also
14 higher than the national average of 54.7 MMBtu.

15 The heavy reliance on natural gas and petroleum fuels in the residential sector brings with
16 it another risk of natural gas as a power plant fuel for South Dakotans. If natural gas is used as an
17 energy source instead of coal at Big Stone Unit II, there is an overall loss of fuel supply
18 diversity. If natural gas supplies are constrained in supply and/or subjected to price spikes,
19 residences can be hit twice – once in their direct consumption of fuel, and again in their use of
20 natural gas-fueled electricity.

1 III(b). HEALTH CONSEQUENCES

2 **Q: Is there a relationship between higher energy costs and health?**

3 A: Yes. One of the most widespread and strongest research findings in the field of medical
 4 population statistics is that the higher the social and economic status (holding age and sex
 5 constant), the lower the probability of illness and mortality. This theory has been well
 6 documented over decades of research. The World Health Organization, the World Bank, and
 7 other noted institutions agree with this fact.

8 For energy costs, this relationship is demonstrated and developed in the report titled
 9 Mortality Reductions from Use of Low-Cost Coal-Fueled Power: An Analytical Framework,
 10 dated December 2002. I was the lead author of that report. My co-author was Ralph L. Keeney,
 11 presently a Research Professor at Duke University's Fuqua School of Business. The report was
 12 peer-reviewed by James K. Hammitt (Associate Professor of Economics and Decision Sciences,
 13 Department of Health Policy and Management, Harvard School of Public Health) and Detlof von
 14 Winterfeldt (Associate Dean for Faculty Affairs and Research of the School of Policy, Planning,
 15 and Development at the University of Southern California, and Professor of Public Policy and
 16 Management). This report can be downloaded in full as a PDF document at
 17 <http://ceednet.org/docs/Mortality%20Reductions.pdf>.

18 **Q: What is the basis for asserting that reduced income is related to lesser health and**
 19 **higher mortality?**

20 A: In the 1980s, the noted political scientist Aaron Wildavsky formulated the concept of the
 21 "richer is safer" (also referred to as "wealthier is healthier"). In essence, this link between wealth
 22 and health relies on two facts. First, when individuals incur higher costs of regulatory actions -
 23 such as higher prices for their energy use - less of their income is available for other purposes.

1 Second, individuals tend to use additional disposable income in ways that on average reduce
2 their health and safety risks and therefore reduce deaths. Accordingly, when higher energy costs
3 reduce the disposable income available for other purposes, they can increase other health and
4 safety risks to individuals.

5 **Q: What are the ways in which energy costs affect health and mortality?**

6 A: Money spent on energy costs is not available to meet other household needs. With more
7 income, individuals tend to spend more on health care for themselves and their children,
8 purchase more safety equipment, eat a more nutritious diet, and take other actions that decrease
9 the likelihood of premature death by illness or accident. Conversely, individual reductions in
10 disposable income tend to increase health and safety risks and the resulting deaths. Similarly,
11 higher unemployment has been shown to have an adverse effect on safety, health, and longevity.

12 There are many mechanisms that support the richer-is-safer and wealthier-is-healthier
13 concepts. Some are directly due to individuals' actions and others are due to societal action. Here
14 are a few examples:

- 15 • When individuals have less disposable income, on average the following occur: nutrition
16 is typically poorer, babies will have less prenatal health care, adults may forgo physical
17 exams and preventative medical expenses (e.g. pap smears) and postpone safety
18 purchases (e.g. home fire alarms), and individuals are less likely to attend smoking clinics
19 to stop smoking or spend as much to reduce stress.
- 20 • A general increase in the standard of living influences societal structure. Health and
21 safety are improved via social mechanisms such as education. With more disposable
22 income, students from poor families will more likely complete high school and attend
23 college. Better education changes both one's knowledge about what is safe and healthy

1 and one's practice to pursue them. For example, sanitary procedures are improved, homes
 2 are "child-proofed" to reduce accidents, and more people start wearing seat belts.

- 3 • A wealthier society leads to the development of a better and more diverse medical
 4 research establishment, to larger markets to stimulate creation of safer products, to an
 5 infrastructure of health clubs and many opportunities for exercise, and to the societal
 6 resilience to rapidly and efficiently attack new unforeseen problems threatening our
 7 collective health and safety.

8 The fact that additional disposable income is used in ways that on average improve health
 9 and reduce the mortality risks of individuals applies to statistical averages and not necessarily to
 10 any specific individual whose behavior and risks contribute to those averages. For some
 11 individuals, additional income facilitates riskier and/or unhealthier activities. However, over
 12 broad populations the pattern is clear.

13 **Q: How does this relationship apply within relatively wealthy countries such as the**
 14 **U.S.?**

15 A: Much of the literature developing the relationship between income and mortality has
 16 examined the differences among countries, particularly the stark differences in average life spans
 17 between developing nations and impoverished ones. But this relationship is applicable within a
 18 country as well as across countries. Even in countries where the average household income is at
 19 a high level, the poorer segments of society will face disadvantages that collectively reduce
 20 average life spans.

21 Figure 7 presents a scatter chart of household income vs. average life expectancy in the
 22 United States. Each of the 50 states is a data point on this chart. The x-coordinate for each data
 23 point is that state's average household income, and the y-coordinate is average life expectancy.

1 While the relationship is not perfect, there is a clear upward trend among the state averages.
 2 Higher-income states tend to have higher life expectancies than the lower-income states, often 3-
 3 4 years more on average.

4 **Q: What are the implications of this relationship for Big Stone Unit II?**

5 A: If Big Stone Unit II is not built, and a higher-cost alternative power source used instead,
 6 there would be higher costs for electricity to the consumers, and this in turn would lead to less
 7 disposable income available for those consumers to meet other household needs.

8 **Q: How would families be impacted by these economic dislocations?**

9 A: In most cases, reduced household income will mean cutting back on expenditures,
 10 including some that may have a direct impact on health and longevity. This is particularly true
 11 for lower-income homes with fewer surplus resources. For example, less disposable income
 12 may necessitate dropping insurance coverage, forgoing or delaying medical care, or denying
 13 children access to better schools or advanced education. In some cases, reduced household
 14 incomes may lead to poor nutrition or the family having to live in unsafe conditions. These are
 15 just a few of the factors that can lead to lesser health and increased mortality. Collectively, there
 16 are measurable health and mortality risks associated with significant reductions in household
 17 incomes and higher unemployment that can result from increased power costs.

18 **Q: Where within the population are these additional income-driven health and**
 19 **mortality consequences most likely to occur?**

20 A: These estimates of lesser health and increased mortality are not spread evenly across the
 21 population; the most vulnerable in our society are often the hardest hit. Increases in energy costs
 22 are regressive because, as data and research by the U.S. Department of Energy show, low-
 23 income families must spend a greater percentage of their household earnings to cover energy-

1 related expenditures. Further, lower-income families incur a greater mortality risk than do
 2 higher-income families when income is reduced. As a result, the health and mortality impacts are
 3 highly concentrated in lower income groups. These disproportionate effects would disadvantage
 4 certain minority communities where the average household incomes may be lower.

5 **Q: How does volatility in fuel prices affect your conclusions in this regard?**

6 A: As developed above, my conclusions are based on the loss of disposable household
 7 income resulting from having to pay higher prices for electricity. This linkage can be considered
 8 a first-order impact, in that the higher fuel prices directly translate into lower disposable income
 9 for other purposes.

10 But as I discussed, volatility in fuel prices creates additional negative impacts, disrupting
 11 labor markets and dampening overall GDP growth. Thus, even if fuel prices over time average
 12 the same, reliance on a energy source having higher volatility will have additional second-order
 13 impacts in the form of higher unemployment and lower household income. Both of these
 14 outcomes are linked to lesser health and higher rates of mortality.

15 **Q: How applicable are your conclusions specifically to the ratepayers for Big Stone**
 16 **Unit II power?**

17 A: There is evidence to suggest that the sensitivity to household income changes would be
 18 greater for the population affected by Big Stone Unit II than the national average, and as such the
 19 benefits to health, safety, and longevity of Big Stone Unit II (relative to higher-cost generating
 20 options) would be higher than use of the national averages alone would suggest. I say this
 21 because most of the counties to be served by the Big Stone Unit II plant on average have a lower
 22 average household income than the national average. Since lower-income families incur a greater
 23 health and mortality risk than do higher-income families when income is reduced, the health and

1 mortality impacts to households served by Big Stone Unit II would likely be greater than U.S.-
2 wide averages would suggest.

3 Table 6 shows data from the U.S. Census Bureau on median household incomes for the
4 U.S. and the counties to be served by Big Stone Unit II. The Census Bureau data consists of
5 model-based estimates of poverty and income for states and counties, and is developed from its
6 Small Area Income and Poverty Estimates (SAIPE) program. The latest estimates are for
7 calendar year 2003, and can be referenced at <http://www.census.gov/hhes/www/saipe/county.html>.

8 The six companies that would share the output of Big Stone Unit II serve communities
9 throughout large parts of western Minnesota and portions of North Dakota, South Dakota, and
10 Iowa. The staff at Otter Tail Power Company helped me to match these communities to their
11 respective counties. In all, the Big Stone Unit II project would serve portions of 48 of
12 Minnesota's 87 counties, 12 of North Dakota's 53 counties, 9 of South Dakota's 66 counties, and
13 one of Iowa's 99 counties. For each of these counties, I compared the median household income
14 in 2003 to the U.S. average.

15 As seen in Table 6, U.S. median household income was \$43,318 in 2003. South Dakota
16 ranked 40th among states (including the District of Columbia), at \$38,008 per household. North
17 Dakota ranked 39th, at \$38,223 per household. Minnesota, at \$50,750 median household income,
18 actually ranked seventh among states in 2003, well above the national average. However, a
19 county-by-county examination indicates that Minnesota's high state average is driven mainly by
20 wealthier counties in the Minneapolis-St. Paul area, whereas the Big Stone Unit II plant would
21 service communities primarily in the western part of the state. These western Minnesota counties
22 are generally far below the Minnesota average income, and significantly below the U.S. average.

- 1 • In South Dakota, all 9 of the counties to be served by Big Stone Unit II had a 2003
2 median household income below the U.S. average.
- 3 • In North Dakota, 11 of the 12 counties to be served by Big Stone Unit II had a 2003
4 median household income below the U.S. average.
- 5 • In Minnesota, 35 of the 48 counties to be served by Big Stone Unit II had a 2003 median
6 household income below the U.S. average.
- 7 • The single county in Iowa to be served by Big Stone Unit II had a 2003 median
8 household income above the U.S. average.
- 9 • In aggregate, 86 of the 118 counties in the four-state region that would be served by Big
10 Stone Unit II had a 2003 median household income below the U.S. average.

11 **Q: What are the implications of Big Stone Unit II's service territory having a median**
12 **household income lower than the U.S. average?**

13 A: It means that they are relatively more sensitive to the income effects on health and
14 mortality. With a higher fraction of the households being more sensitive to the health and
15 mortality effects of changes in household income, these counties would likely gain (or lose)
16 more from Big Stone Unit II's presence (or absence) than national averages would suggest.
17 Because of this, the average national vulnerability to higher energy costs may be less than that
18 for the population economically affected by Big Stone Unit II. If so, then the health and mortality
19 impacts for the Big Stone Unit II impacts would likely be greater than our use of national
20 averages would suggest.

21 **IV. CONCLUSION**

22 **Q: Was this material prepared by you or under your supervision?**

23 A: I prepared the material in this testimony.

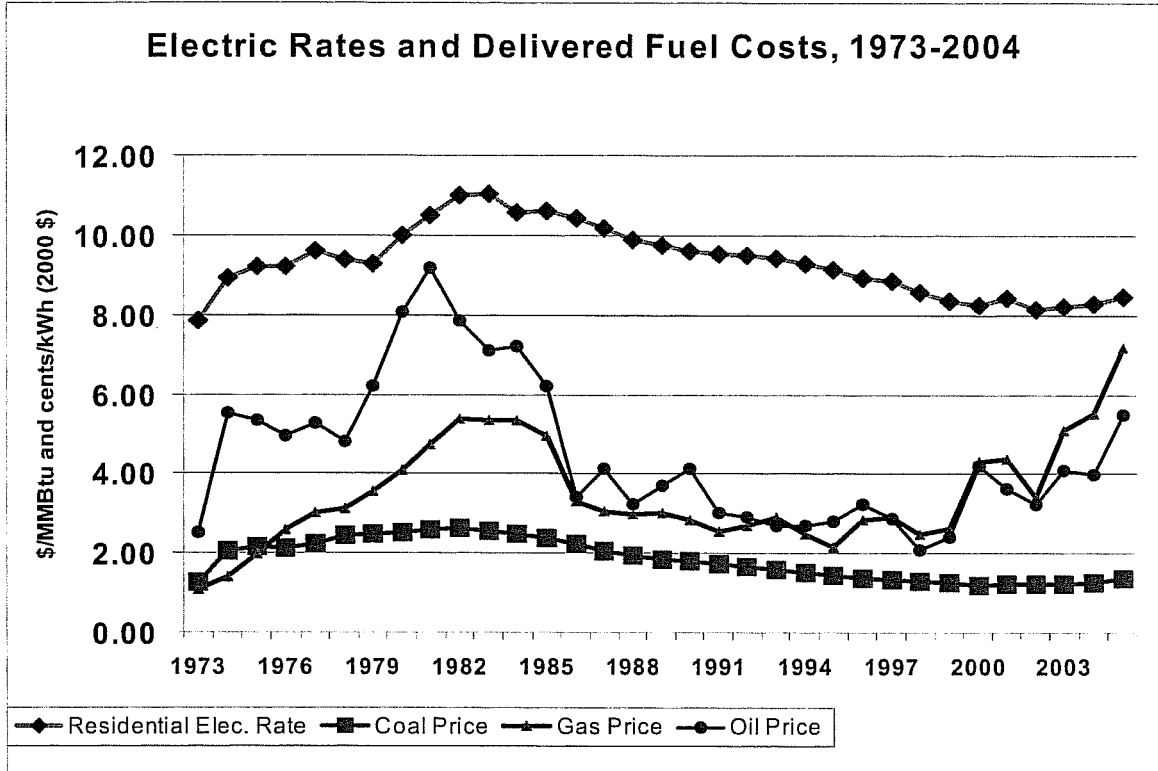
1 **Q: Insofar as this material is in the nature of opinion or judgment, does it represent**
2 **your best judgment?**

3 **A: Yes, it does.**

4 **Q: Does this conclude your qualifications and prepared testimony?**

5 **A: Yes, it does.**

FIGURE 1
RESIDENTIAL ELECTRIC AND DELIVERED FUEL COSTS
TO ELECTRIC POWER COMPANIES, 1973-2005



Source: U.S. Dept. of Energy, Energy Information Administration, *Monthly Energy Review March 2006*, Table 9.9, <http://www.eia.doe.gov/emeu/mer/prices.html>. GDP Implicit Price Deflator based on U.S. Dept. of Commerce data, as reported in U.S. Department of Energy, Energy Information Administration, *Annual Energy Review 2004*, DOE/EIA-0384(2004), Appendix D, Table D-1, page 373, "Population and U.S. Gross Domestic Product, Selected Years, 1949-2004", August 2005, <http://www.eia.doe.gov/emeu/aer/pdf/aer.pdf>.

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EXHIBIT
 APPLICANTS'
 EXHIBIT 31-A

TABLE 2
CHANGES IN RESIDENTIAL ELECTRIC AND FOSSIL FUEL PRICES, 1973-2005

Year	Annual Changes (2000\$, cents/kWh or \$/MMBtu)				Annual Percentage Change over Previous Year			
	Ave. Residential	Cost at Electric Generating Plants			Ave. Residential	Cost at Electric Generating Plants		
	Electric Price	Coal	Petroleum	Natural Gas	Electric Price	Coal	Petroleum	Natural Gas
1973	--	--	--	--	--	--	--	--
1974	1.08	0.770	2.989	0.327	0.14	0.606	1.190	0.308
1975	0.28	0.100	-0.177	0.591	0.03	0.049	-0.032	0.426
1976	-0.01	-0.032	-0.373	0.594	0.00	-0.015	-0.070	0.300
1977	0.39	0.105	0.310	0.447	0.04	0.050	0.063	0.174
1978	-0.19	0.224	-0.472	0.088	-0.02	0.101	-0.090	0.029
1979	-0.11	0.031	1.412	0.422	-0.01	0.013	0.295	0.136
1980	0.71	0.030	1.851	0.539	0.08	0.012	0.299	0.153
1981	0.50	0.092	1.125	0.676	0.05	0.037	0.140	0.166
1982	0.51	0.034	-1.330	0.637	0.05	0.013	-0.145	0.134
1983	0.04	-0.086	-0.749	-0.054	0.00	-0.033	-0.096	-0.010
1984	-0.47	-0.080	0.091	-0.002	-0.04	-0.032	0.013	0.000
1985	0.03	-0.096	-0.995	-0.385	0.00	-0.039	-0.138	-0.072
1986	-0.19	-0.148	-2.772	-1.641	-0.02	-0.063	-0.448	-0.332
1987	-0.24	-0.159	0.693	-0.239	-0.02	-0.072	0.203	-0.073
1988	-0.30	-0.121	-0.891	-0.071	-0.03	-0.059	-0.217	-0.023
1989	-0.14	-0.097	0.461	0.008	-0.01	-0.050	0.143	0.003
1990	-0.14	-0.056	0.427	-0.153	-0.01	-0.031	0.116	-0.051
1991	-0.08	-0.070	-1.117	-0.295	-0.01	-0.039	-0.272	-0.104
1992	-0.02	-0.079	-0.082	0.145	0.00	-0.046	-0.027	0.057
1993	-0.09	-0.067	-0.225	0.202	-0.01	-0.041	-0.077	0.075
1994	-0.13	-0.066	0.000	-0.426	-0.01	-0.042	0.000	-0.147
1995	-0.16	-0.070	0.101	-0.317	-0.02	-0.047	0.038	-0.128
1996	-0.21	-0.058	0.438	0.660	-0.02	-0.040	0.157	0.306
1997	-0.07	-0.039	-0.363	0.079	-0.01	-0.029	-0.113	0.028
1998	-0.27	-0.036	-0.766	-0.425	-0.03	-0.027	-0.268	-0.147
1999	-0.22	-0.055	0.315	0.162	-0.03	-0.043	0.151	0.066
2000	-0.10	-0.042	1.769	1.672	-0.01	-0.034	0.734	0.636
2001	0.19	0.003	-0.573	0.079	0.02	0.003	-0.137	0.018
2002	-0.30	-0.002	-0.398	-0.961	-0.04	-0.002	-0.110	-0.219
2003	0.08	0.007	0.876	1.665	0.01	0.006	0.273	0.487
2004	0.08	0.049	-0.121	0.421	0.01	0.041	-0.030	0.083
2005	0.18	0.119	1.533	1.640	0.02	0.095	0.387	0.298
Standard Deviation:	0.32	0.16	1.08	0.67	3.7%	11.6%	30.0%	20.6%

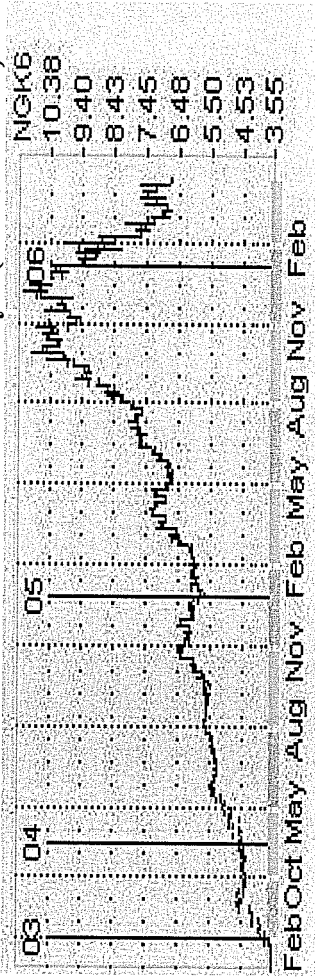
Source: Developed from Table 1, preceding, using data from U.S. Dept. of Energy, Energy Information Administration, *Monthly Energy Review March 2006*, Table 9.9, <http://www.eia.doe.gov/emeu/mer/prices.html>. GDP Implicit Price Deflator based on U.S. Dept. of Commerce data, as reported in U.S. Department of Energy, Energy Information Administration, *Annual Energy Review 2004*, DOE/EIA-0384(2004), Appendix D, Table D-1, page 373, "Population and U.S. Gross Domestic Product, Selected Years, 1949-2004", August 2005, <http://www.eia.doe.gov/emeu/aer/pdf/aer.pdf>.

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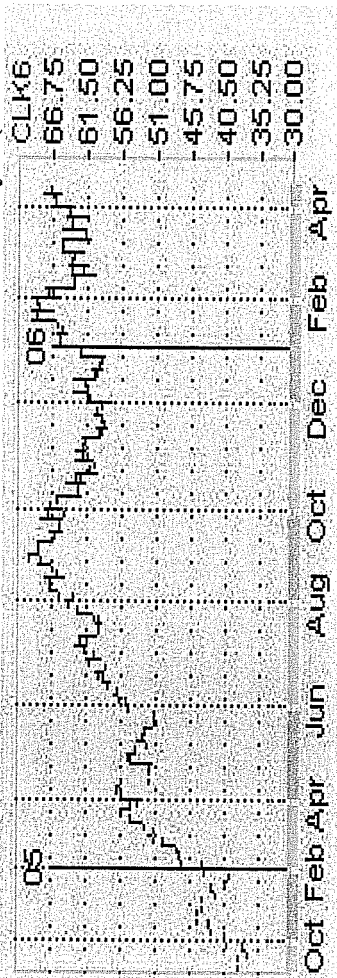
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FIGURE 2
FLUCTUATIONS IN OIL AND NATURAL GAS FUTURES PRICES

Natural Gas Futures: 4/13/2006 Session Contract Detail for May 6 (U.S. \$/MMBtu)



Light Sweet Crude Oil Futures: 4/13/2006 Session Contract Detail for May 6 (U.S. \$/barrel)



Source: Data and charts from New York Mercantile Exchange, April 14, 2006, <http://www.nymex.com/>.

TABLE 3
AEO 2006 FORECAST OF ELECTRIC POWER SECTOR FOSSIL FUEL COSTS, 2003-2030
Reference Case Forecasts, 2004 Dollars per MMBtu **Ref. Case Forecasts, Converted to 2000\$/MMBtu**

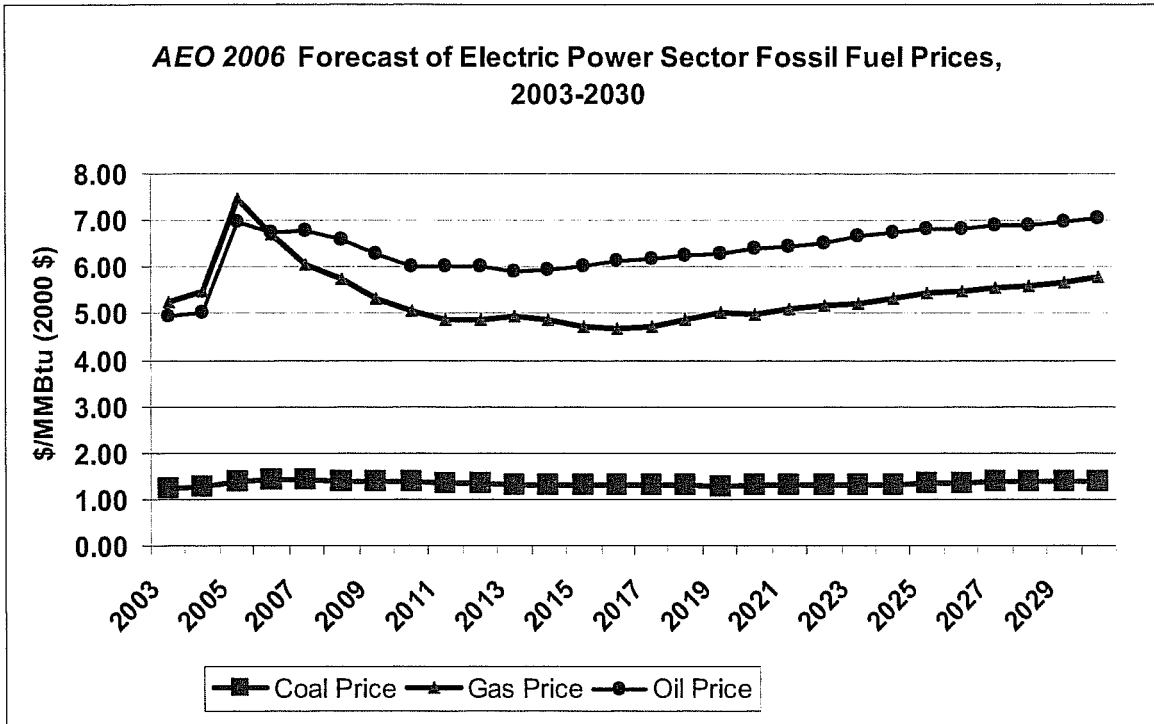
Forecast Year	Reference Case Forecasts, 2004 Dollars per MMBtu					Ref. Case Forecasts, Converted to 2000\$/MMBtu						
	Distillate Fuel	Residual Fuel	Petroleum Total, Ave.	Natural Gas	Steam Coal	Fossil Fuel Ave.	Distillate Fuel	Residual Fuel	Petroleum Total, Ave.	Natural Gas	Steam Coal	Fossil Fuel Ave.
2003	6.65	4.90	5.35	5.66	1.33	2.35	6.14	4.53	4.94	5.23	1.23	2.17
2004	9.23	4.76	5.43	5.92	1.36	2.46	8.52	4.39	5.02	5.47	1.26	2.27
2005	9.71	6.98	7.53	8.09	1.50	3.05	8.97	6.45	6.96	7.47	1.38	2.82
2006	10.61	6.55	7.29	7.24	1.53	2.85	9.81	6.05	6.73	6.69	1.41	2.63
2007	10.06	6.57	7.33	6.54	1.51	2.67	9.30	6.07	6.77	6.04	1.40	2.47
2008	9.80	6.35	7.11	6.22	1.50	2.60	9.06	5.86	6.56	5.75	1.38	2.40
2009	9.38	5.99	6.78	5.77	1.47	2.46	8.66	5.53	6.26	5.33	1.36	2.27
2010	9.04	5.70	6.50	5.46	1.48	2.41	8.35	5.27	6.01	5.05	1.37	2.22
2011	9.04	5.72	6.51	5.26	1.45	2.37	8.35	5.29	6.02	4.86	1.34	2.19
2012	9.16	5.71	6.51	5.24	1.44	2.39	8.47	5.28	6.01	4.84	1.33	2.21
2013	8.85	5.65	6.39	5.36	1.43	2.44	8.18	5.22	5.90	4.95	1.32	2.26
2014	8.98	5.67	6.43	5.28	1.41	2.44	8.30	5.23	5.94	4.88	1.31	2.25
2015	9.02	5.72	6.52	5.08	1.40	2.41	8.34	5.28	6.02	4.69	1.30	2.23
2016	9.23	5.78	6.64	5.06	1.40	2.41	8.53	5.34	6.13	4.68	1.29	2.23
2017	9.23	5.83	6.69	5.10	1.39	2.41	8.53	5.39	6.18	4.72	1.28	2.23
2018	9.43	5.86	6.76	5.26	1.39	2.44	8.72	5.41	6.24	4.86	1.28	2.26
2019	9.48	5.90	6.79	5.41	1.39	2.48	8.76	5.45	6.27	5.00	1.28	2.29
2020	9.62	6.02	6.91	5.40	1.39	2.46	8.89	5.56	6.38	4.99	1.29	2.28
2021	9.67	6.06	6.95	5.52	1.40	2.48	8.94	5.60	6.42	5.10	1.29	2.29
2022	9.85	6.14	7.06	5.59	1.40	2.48	9.10	5.68	6.53	5.17	1.30	2.29
2023	9.92	6.27	7.21	5.65	1.41	2.48	9.17	5.80	6.66	5.22	1.31	2.29
2024	9.99	6.36	7.30	5.76	1.43	2.49	9.23	5.87	6.74	5.32	1.32	2.30
2025	10.05	6.43	7.37	5.87	1.44	2.50	9.29	5.94	6.81	5.42	1.33	2.31
2026	10.12	6.47	7.39	5.93	1.46	2.51	9.35	5.98	6.83	5.48	1.35	2.31
2027	10.14	6.54	7.44	6.02	1.47	2.50	9.37	6.04	6.87	5.56	1.36	2.31
2028	10.19	6.56	7.47	6.06	1.49	2.49	9.42	6.06	6.90	5.60	1.37	2.30
2029	10.21	6.63	7.52	6.12	1.50	2.47	9.44	6.12	6.95	5.66	1.39	2.29
2030	10.28	6.73	7.61	6.26	1.51	2.49	9.50	6.22	7.03	5.78	1.39	2.30
Annual Growth, 2004-2030	0.4%	1.3%	1.3%	0.2%	0.4%	0.0%	0.4%	1.3%	1.3%	0.2%	0.4%	0.0%

Source: U.S. Dept. of Energy, Energy Information Administration, *Annual Energy Outlook 2006*, DOE/EIA-0383(2006), February 2006, Year-by-Year Reference Case Tables, Table 3, http://www.eia.doe.gov/oiaf/aeo/aeoref_tab.html. Prices converted from 2004 dollars to 2000 dollars by dividing by a GDP Implicit Price Deflator of 1.08237, based on U.S. Dept. of Commerce data, as reported in U.S. Department of Energy, Energy Information Administration, *Annual Energy Review 2004*, DOE/EIA-0384(2004), Appendix D, Table D-1, page 373, "Population and U.S. Gross Domestic Product, Selected Years, 1949-2004," August 2005, <http://www.eia.doe.gov/emeu/aer/pdf/aer.pdf>.

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FIGURE 3
AEO 2006 FORECAST OF ELECTRIC POWER SECTOR
FOSSIL FUEL COSTS, 2003-2030
(\$/MMBtu, real 2000\$)

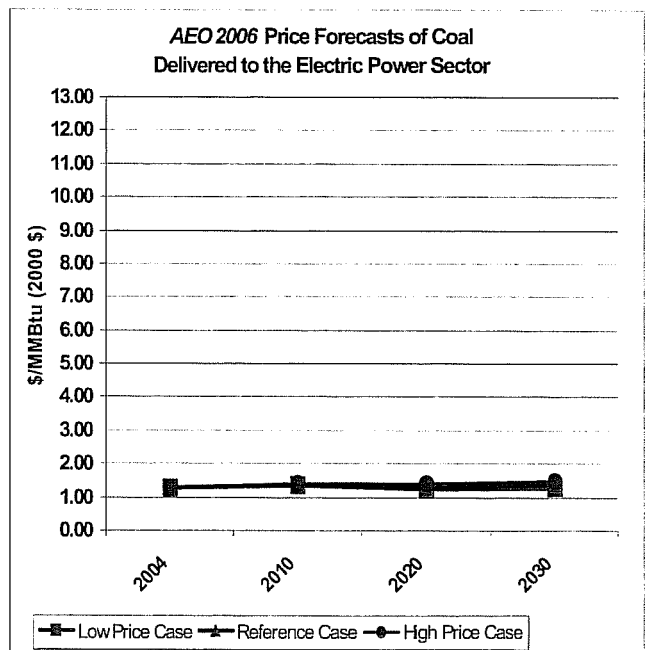
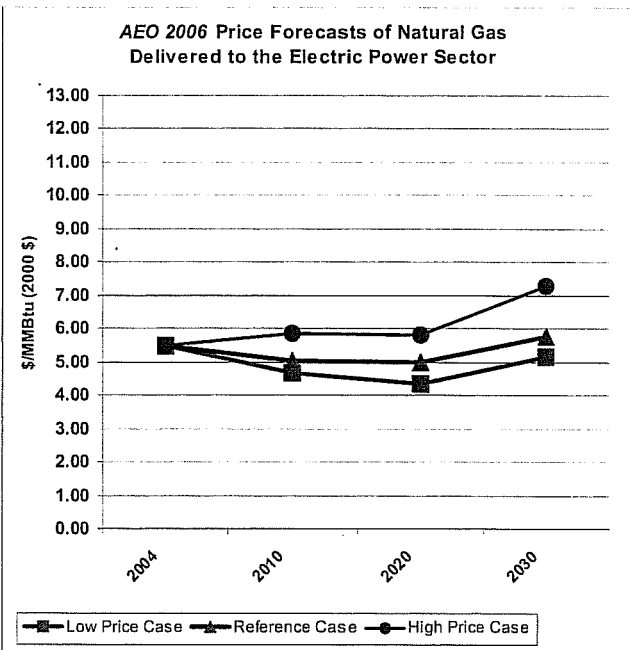
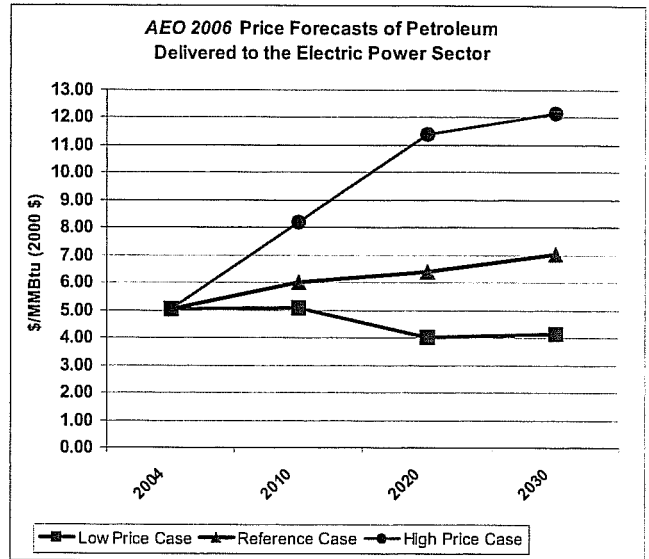


Source: Developed from data in Table 3. Data from U.S. Dept. of Energy, Energy Information Administration, *Annual Energy Outlook 2006*, DOE/EIA-0383(2006), February 2006, Year-by-Year Reference Case Tables, Table 3, http://www.eia.doe.gov/oiaf/aeo/aeoref_tab.html. Prices converted from 2004 dollars to 2000 dollars by dividing by a GDP Implicit Price Deflator of 1.08237, based on U.S. Dept. of Commerce data, as reported in U.S. Department of Energy, Energy Information

FIGURE 4
AEO 2006 RANGE OF PRICE FORECASTS FOR FOSSIL FUEL
DELIVERED TO THE ELECTRIC POWER SECTOR
(2000 \$/MMBtu)

**AEO 2006 Price Case Forecasts
for the Electric Power Sector**

		Price (2000\$/MMBtu)			
Scenario		2004	2010	2020	2030
Petroleum	Low	\$ 5.02	\$ 5.05	\$ 4.00	\$ 4.13
	Reference	\$ 5.02	\$ 6.01	\$ 6.38	\$ 7.03
	High	\$ 5.02	\$ 8.19	\$ 11.38	\$ 12.16
Natural Gas	Low	\$ 5.47	\$ 4.67	\$ 4.32	\$ 5.14
	Reference	\$ 5.47	\$ 5.04	\$ 4.99	\$ 5.78
	High	\$ 5.47	\$ 5.85	\$ 5.80	\$ 7.29
Coal	Low	\$ 1.26	\$ 1.35	\$ 1.23	\$ 1.28
	Reference	\$ 1.26	\$ 1.37	\$ 1.28	\$ 1.40
	High	\$ 1.26	\$ 1.39	\$ 1.38	\$ 1.49



Source: U.S. Dept. of Energy, Energy Information Administration, *Annual Energy Outlook 2006*, DOE/EIA-0383(2006), February 2006, Table C-3, [http://www.eia.doe.gov/oiaf/aeo/pdf/0383\(2006\).pdf](http://www.eia.doe.gov/oiaf/aeo/pdf/0383(2006).pdf). Prices converted from 2004 dollars to 2000 dollars by dividing by a GDP Implicit Price Deflator of 1.08237

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TABLE 4(A)
PETROLEUM PRICE FORECASTS TO ELECTRIC GENERATORS
FROM ANNUAL ENERGY OUTLOOK, 1982-2006 (2000 \$/MMBTU)

1. Petroleum forecast prices in real \$ per MMBtu, using \$ base year as given in that year's AEO

Source	Table/Page	Year \$	1985	1990	1995	2000	2005	2010	2015	2020	2025	2030
AEO 1982	Table A.5.1, Page 141	1982	\$ 4.55	\$ 6.75								
AEO 1983	Table A5, Page 194	1983	\$ 4.05	\$ 5.53	\$ 7.59							
AEO 1984	Table A5, Page 209	1984	\$ 4.48	\$ 5.15	\$ 6.58							
AEO 1985	Table A3, Page 49	1985	\$ 4.61	\$ 4.85	\$ 5.30							
AEO 1986	Table A3, Page 33	1986		\$ 2.79	\$ 4.33	\$ 5.48						
AEO 1987	Table A3, Page 35	1987		\$ 3.02	\$ 3.72	\$ 5.00						
AEO 1988	not published (see note)	1988		\$ 2.87	\$ 3.77	\$ 5.01						
AEO 1989	Table A3, Page 47	1988		\$ 2.62	\$ 3.70	\$ 4.84						
AEO 1990	Table A2, Page 41	1989		\$ 2.75	\$ 3.48	\$ 4.70	\$ 5.54	\$ 6.21				
AEO 1991	Table A3, Page 46	1990			\$ 4.36	\$ 4.62	\$ 5.43	\$ 6.00				
AEO 1992	Table A3, Page 66	1990			\$ 3.84	\$ 4.76	\$ 5.43	\$ 6.17				
AEO 1993	Table A3, Page 84	1991			\$ 3.58	\$ 4.05	\$ 4.61	\$ 5.36				
AEO 1994	Table A3, Page 58	1992				\$ 3.58	\$ 4.39	\$ 4.94				
AEO 1995	Table A3, Page 76	1993				\$ 2.91	\$ 3.33	\$ 3.78				
AEO 1996	Table A3, Pages 78-79	1994				\$ 3.27	\$ 3.68	\$ 4.04	\$ 4.38			
AEO 1997	Table A3, Page 100	1995				\$ 3.09	\$ 3.35	\$ 3.59	\$ 3.52			
AEO 1998	Table A3, Page 104	1996				\$ 3.21	\$ 3.57	\$ 3.84	\$ 4.00	\$ 4.21		
AEO 1999	Table A3, Page 116	1997				\$ 2.32	\$ 3.29	\$ 3.89	\$ 4.05	\$ 4.33		
AEO 2000	Table A3, Page 121	1998					\$ 3.23	\$ 3.28	\$ 3.40	\$ 3.54		
AEO 2001	Table A3, Page 131	1999					\$ 3.70	\$ 4.11	\$ 4.27	\$ 4.35		
AEO 2002	Table A3, Page 129	2000					\$ 3.80	\$ 3.97	\$ 4.14	\$ 4.27		
AEO 2003	Table A3, Page 123	2001					\$ 4.13	\$ 4.27	\$ 4.43	\$ 4.60	\$ 4.98	
AEO 2004	Table A3, Page 137	2002						\$ 4.21	\$ 4.54	\$ 4.67	\$ 4.88	
AEO 2005	Table A3, Page 143	2003						\$ 4.55	\$ 4.77	\$ 5.10	\$ 5.42	
AEO 2006	Table A3, Page 137	2004						\$ 6.50	\$ 6.52	\$ 6.91	\$ 7.37	\$ 7.61

2. Petroleum forecast prices in real \$ per MMBtu, using year 2000 dollars

Source	Table/Page	Implicit Price Deflator	1985	1990	1995	2000	2005	2010	2015	2020	2025	2030
AEO 1982	Table A.5.1, Page 141	0.6273	\$ 7.25	\$ 10.76								
AEO 1983	Table A5, Page 194	0.6521	\$ 6.21	\$ 8.48	\$ 11.64							
AEO 1984	Table A5, Page 209	0.6766	\$ 6.62	\$ 7.61	\$ 9.73							
AEO 1985	Table A3, Page 49	0.6971	\$ 6.61	\$ 6.96	\$ 7.60							
AEO 1986	Table A3, Page 33	0.7125		\$ 3.92	\$ 6.08	\$ 7.69						
AEO 1987	Table A3, Page 35	0.7320		\$ 4.13	\$ 5.08	\$ 6.83						
AEO 1988	not published (see note)	0.7569		\$ 3.79	\$ 4.99	\$ 6.61						
AEO 1989	Table A3, Page 47	0.7569		\$ 3.46	\$ 4.89	\$ 6.39						
AEO 1990	Table A2, Page 41	0.7856		\$ 3.50	\$ 4.43	\$ 5.98	\$ 7.05	\$ 7.91				
AEO 1991	Table A3, Page 46	0.8159			\$ 5.34	\$ 5.66	\$ 6.66	\$ 7.35				
AEO 1992	Table A3, Page 66	0.8159			\$ 4.71	\$ 5.83	\$ 6.66	\$ 7.56				
AEO 1993	Table A3, Page 84	0.8444			\$ 4.24	\$ 4.80	\$ 5.46	\$ 6.35				
AEO 1994	Table A3, Page 58	0.8639				\$ 4.14	\$ 5.08	\$ 5.72				
AEO 1995	Table A3, Page 76	0.8838				\$ 3.29	\$ 3.77	\$ 4.28				
AEO 1996	Table A3, Pages 78-79	0.9026				\$ 3.62	\$ 4.08	\$ 4.48	\$ 4.85			
AEO 1997	Table A3, Page 100	0.9211				\$ 3.35	\$ 3.64	\$ 3.90	\$ 3.82			
AEO 1998	Table A3, Page 104	0.9385				\$ 3.42	\$ 3.80	\$ 4.09	\$ 4.26	\$ 4.49		
AEO 1999	Table A3, Page 116	0.9541				\$ 2.43	\$ 3.45	\$ 4.08	\$ 4.24	\$ 4.54		
AEO 2000	Table A3, Page 121	0.9647					\$ 3.35	\$ 3.40	\$ 3.52	\$ 3.67		
AEO 2001	Table A3, Page 131	0.9787					\$ 3.78	\$ 4.20	\$ 4.36	\$ 4.44		
AEO 2002	Table A3, Page 129	1.0000					\$ 3.80	\$ 3.97	\$ 4.14	\$ 4.27		
AEO 2003	Table A3, Page 123	1.0240					\$ 4.03	\$ 4.17	\$ 4.33	\$ 4.49	\$ 4.86	
AEO 2004	Table A3, Page 137	1.0409						\$ 4.04	\$ 4.36	\$ 4.49	\$ 4.69	
AEO 2005	Table A3, Page 143	1.0600						\$ 4.29	\$ 4.50	\$ 4.81	\$ 5.11	
AEO 2006	Table A3, Page 137	1.0824						\$ 6.01	\$ 6.02	\$ 6.38	\$ 6.81	\$ 7.03

Source: U.S. Dept. of Energy, Energy Information Administration, *Annual Energy Outlook*, yearly publications, 1982 through 2006. Reference Case Tables' prices converted from various year dollars to 2000 dollars by dividing by a GDP Implicit Price Deflator, based on U.S. Dept. of Commerce data, as reported in U.S. Department of Energy, Energy Information Administration, *Annual Energy Review 2004*, DOE/EIA-0384(2004), Appendix D, Table D-1, page 373, "Population and U.S. Gross Domestic Product, Selected Years, 1949-2004," August 2005, <http://www.eia.doe.gov/emeu/aer/pdf/aer.pdf>. AEO 1988 was not published; values shown here are the averages (real) of the 1987 and 1989 AEO. 1982 Petroleum prices calculated as volume-weighted averages of distillate, low-sulfur resid, and high-sulfur resid. for 1990, only heavy oil prices were forecast for electric power.



TABLE 4(B)
NATURAL GAS PRICE FORECASTS TO ELECTRIC GENERATORS
FROM ANNUAL ENERGY OUTLOOK, 1982-2006 (2000 \$/MMBTU)

1. Natural gas forecast prices in real \$ per MMBtu, using \$ base year as given in that year's AEO

Source	Table/Page	Year	1985	1990	1995	2000	2005	2010	2015	2020	2025	2030
AEO 1982	Table A.5.1, Page 141	1982	\$ 5.54	\$ 7.19								
AEO 1983	Table A5, Page 194	1983	\$ 3.44	\$ 4.49	\$ 7.05							
AEO 1984	Table A5, Page 209	1984	\$ 3.59	\$ 4.35	\$ 5.89							
AEO 1985	Table A3, Page 49	1985	\$ 3.87	\$ 3.85	\$ 4.96							
AEO 1986	Table A3, Page 33	1986		\$ 2.75	\$ 4.43	\$ 5.71						
AEO 1987	Table A3, Page 35	1987		\$ 2.45	\$ 3.30	\$ 4.54						
AEO 1988	not published (see note)	1988		\$ 2.39	\$ 3.26	\$ 4.43						
AEO 1989	Table A3, Page 47	1988		\$ 2.25	\$ 3.10	\$ 4.16						
AEO 1990	Table A2, Page 41	1989		\$ 2.39	\$ 2.90	\$ 3.83	\$ 4.92	\$ 6.00				
AEO 1991	Table A3, Page 46	1990			\$ 2.72	\$ 3.17	\$ 4.59	\$ 5.48				
AEO 1992	Table A3, Page 66	1990			\$ 2.51	\$ 3.27	\$ 4.39	\$ 5.44				
AEO 1993	Table A3, Page 84	1991			\$ 2.60	\$ 3.18	\$ 4.13	\$ 4.47				
AEO 1994	Table A3, Page 58	1992				\$ 2.92	\$ 3.51	\$ 4.08				
AEO 1995	Table A3, Page 76	1993				\$ 2.59	\$ 3.38	\$ 3.73				
AEO 1996	Table A3, Pages 78-79	1994				\$ 2.19	\$ 2.26	\$ 2.44	\$ 2.95			
AEO 1997	Table A3, Page 100	1995				\$ 2.19	\$ 2.28	\$ 2.32	\$ 2.47			
AEO 1998	Table A3, Page 104	1996				\$ 2.48	\$ 2.63	\$ 2.84	\$ 2.98	\$ 3.15		
AEO 1999	Table A3, Page 116	1997				\$ 2.62	\$ 2.94	\$ 3.08	\$ 3.17	\$ 3.24		
AEO 2000	Table A3, Page 121	1998					\$ 2.79	\$ 3.08	\$ 3.21	\$ 3.33		
AEO 2001	Table A3, Page 131	1999					\$ 2.88	\$ 3.03	\$ 3.24	\$ 3.59		
AEO 2002	Table A3, Page 129	2000					\$ 3.19	\$ 3.38	\$ 3.65	\$ 3.87		
AEO 2003	Table A3, Page 123	2001					\$ 3.27	\$ 3.79	\$ 4.14	\$ 4.30	\$ 4.60	
AEO 2004	Table A3, Page 137	2002						\$ 4.04	\$ 4.78	\$ 4.85	\$ 5.42	
AEO 2005	Table A3, Page 143	2003						\$ 4.27	\$ 4.81	\$ 5.20	\$ 5.44	
AEO 2006	Table A3, Page 137	2004						\$ 5.46	\$ 5.08	\$ 5.40	\$ 5.87	\$ 6.26

2. Natural gas forecast prices in real \$ per MMBtu, using year 2000 dollars

Source	Table/Page	Implicit Price Deflator	1985	1990	1995	2000	2005	2010	2015	2020	2025	2030
			1985	1990	1995	2000	2005	2010	2015	2020	2025	2030
AEO 1982	Table A.5.1, Page 141	0.6273	\$ 8.83	\$ 11.46								
AEO 1983	Table A5, Page 194	0.6521	\$ 5.28	\$ 6.89	\$ 10.81							
AEO 1984	Table A5, Page 209	0.6766	\$ 5.31	\$ 6.43	\$ 8.71							
AEO 1985	Table A3, Page 49	0.6971	\$ 5.55	\$ 5.52	\$ 7.11							
AEO 1986	Table A3, Page 33	0.7125		\$ 3.86	\$ 6.22	\$ 8.01						
AEO 1987	Table A3, Page 35	0.7320		\$ 3.35	\$ 4.51	\$ 6.20						
AEO 1988	not published (see note)	0.7569		\$ 3.16	\$ 4.30	\$ 5.85						
AEO 1989	Table A3, Page 47	0.7569		\$ 2.97	\$ 4.10	\$ 5.50						
AEO 1990	Table A2, Page 41	0.7856		\$ 3.04	\$ 3.69	\$ 4.88	\$ 6.26	\$ 7.64				
AEO 1991	Table A3, Page 46	0.8159			\$ 3.33	\$ 3.89	\$ 5.63	\$ 6.72				
AEO 1992	Table A3, Page 66	0.8159			\$ 3.08	\$ 4.01	\$ 5.38	\$ 6.67				
AEO 1993	Table A3, Page 84	0.8444			\$ 3.08	\$ 3.77	\$ 4.89	\$ 5.29				
AEO 1994	Table A3, Page 58	0.8639				\$ 3.38	\$ 4.06	\$ 4.72				
AEO 1995	Table A3, Page 76	0.8838				\$ 2.93	\$ 3.82	\$ 4.22				
AEO 1996	Table A3, Pages 78-79	0.9026				\$ 2.43	\$ 2.50	\$ 2.70	\$ 3.27			
AEO 1997	Table A3, Page 100	0.9211				\$ 2.38	\$ 2.48	\$ 2.52	\$ 2.68			
AEO 1998	Table A3, Page 104	0.9385				\$ 2.64	\$ 2.80	\$ 3.03	\$ 3.18	\$ 3.36		
AEO 1999	Table A3, Page 116	0.9541				\$ 2.75	\$ 3.08	\$ 3.23	\$ 3.32	\$ 3.40		
AEO 2000	Table A3, Page 121	0.9647					\$ 2.89	\$ 3.19	\$ 3.33	\$ 3.45		
AEO 2001	Table A3, Page 131	0.9787					\$ 2.94	\$ 3.10	\$ 3.31	\$ 3.67		
AEO 2002	Table A3, Page 129	1.0000					\$ 3.19	\$ 3.38	\$ 3.65	\$ 3.87		
AEO 2003	Table A3, Page 123	1.0240					\$ 3.19	\$ 3.70	\$ 4.04	\$ 4.20	\$ 4.49	
AEO 2004	Table A3, Page 137	1.0409						\$ 3.88	\$ 4.59	\$ 4.66	\$ 4.73	
AEO 2005	Table A3, Page 143	1.0600						\$ 4.03	\$ 4.54	\$ 4.91	\$ 5.13	
AEO 2006	Table A3, Page 137	1.0824						\$ 5.04	\$ 4.69	\$ 4.99	\$ 5.42	\$ 5.78

Source: U.S. Dept. of Energy, Energy Information Administration, *Annual Energy Outlook*, yearly publications, 1982 through 2006. Reference Case Tables' prices converted from various year dollars to 2000 dollars by dividing by a GDP Implicit Price Deflator, based on U.S. Dept. of Commerce data, as reported in U.S. Department of Energy, Energy Information Administration, *Annual Energy Review 2004*, DOE/EIA-0384(2004), Appendix D, Table D-1, page 373, "Population and U.S. Gross Domestic Product, Selected Years, 1949-2004," August 2005, <http://www.eia.doe.gov/emeu/aer/pdf/aer.pdf>. AEO 1988 was not published; values shown here are the averages (real) of the 1987 and 1989 AEO.

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EXHIBIT
Applicants'
EXHIBIT 31-H

TABLE 4(C)
COAL PRICE FORECASTS TO ELECTRIC GENERATORS
FROM ANNUAL ENERGY OUTLOOK, 1982-2006 (2000 \$/MMBTU)

1. Coal forecast prices in real \$ per MMBtu, using \$ base year as given in that year's AEO

Source	Table/Page	Year \$	1985	1990	1995	2000	2005	2010	2015	2020	2025	2030
AEO 1982	Table A.5.1, Page 141	1982	\$ 1.74	\$ 1.86								
AEO 1983	Table A5, Page 194	1983	\$ 1.82	\$ 1.90	\$ 2.13							
AEO 1984	Table A5, Page 209	1984	\$ 1.83	\$ 1.92	\$ 2.05							
AEO 1985	Table A3, Page 49	1985	\$ 1.68	\$ 1.75	\$ 1.83							
AEO 1986	Table A3, Page 33	1986		\$ 1.67	\$ 1.82	\$ 1.88						
AEO 1987	Table A3, Page 35	1987		\$ 1.56	\$ 1.71	\$ 1.89						
AEO 1988	not published (see note)	1988		\$ 1.58	\$ 1.69	\$ 1.82						
AEO 1989	Table A3, Page 47	1988		\$ 1.54	\$ 1.61	\$ 1.68						
AEO 1990	Table A2, Page 41	1989		\$ 1.47	\$ 1.59	\$ 1.66	\$ 1.76	\$ 1.86				
AEO 1991	Table A3, Page 46	1990			\$ 1.66	\$ 1.79	\$ 1.94	\$ 2.09				
AEO 1992	Table A3, Page 66	1990			\$ 1.59	\$ 1.74	\$ 1.86	\$ 2.00				
AEO 1993	Table A3, Page 84	1991			\$ 1.51	\$ 1.64	\$ 1.73	\$ 1.89				
AEO 1994	Table A3, Page 58	1992				\$ 1.63	\$ 1.70	\$ 1.92				
AEO 1995	Table A3, Page 76	1993				\$ 1.39	\$ 1.45	\$ 1.50				
AEO 1996	Table A3, Pages 78-79	1994				\$ 1.26	\$ 1.29	\$ 1.26	\$ 1.28			
AEO 1997	Table A3, Page 100	1995				\$ 1.29	\$ 1.24	\$ 1.20	\$ 1.11			
AEO 1998	Table A3, Page 104	1996				\$ 1.20	\$ 1.14	\$ 1.09	\$ 1.03	\$ 0.97		
AEO 1999	Table A3, Page 116	1997				\$ 1.19	\$ 1.14	\$ 1.06	\$ 0.99	\$ 0.93		
AEO 2000	Table A3, Page 121	1998					\$ 1.11	\$ 1.07	\$ 1.03	\$ 0.98		
AEO 2001	Table A3, Page 131	1999					\$ 1.13	\$ 1.05	\$ 1.01	\$ 0.98		
AEO 2002	Table A3, Page 129	2000					\$ 1.13	\$ 1.05	\$ 1.01	\$ 0.97		
AEO 2003	Table A3, Page 123	2001					\$ 1.22	\$ 1.17	\$ 1.15	\$ 1.12	\$ 1.10	
AEO 2004	Table A3, Page 137	2002						\$ 1.22	\$ 1.20	\$ 1.17	\$ 1.18	
AEO 2005	Table A3, Page 143	2003						\$ 1.25	\$ 1.23	\$ 1.25	\$ 1.31	
AEO 2006	Table A3, Page 137	2004						\$ 1.48	\$ 1.40	\$ 1.39	\$ 1.44	\$ 1.51

2. Coal forecast prices in real \$ per MMBtu, using year 2000 dollars

Source	Table/Page	Implicit Price Deflator	1985	1990	1995	2000	2005	2010	2015	2020	2025	2030
AEO 1982	Table A.5.1, Page 141	0.6273	\$ 2.77	\$ 2.97								
AEO 1983	Table A5, Page 194	0.6521	\$ 2.79	\$ 2.91	\$ 3.27							
AEO 1984	Table A5, Page 209	0.6766	\$ 2.70	\$ 2.84	\$ 3.03							
AEO 1985	Table A3, Page 49	0.6971	\$ 2.41	\$ 2.51	\$ 2.63							
AEO 1986	Table A3, Page 33	0.7125		\$ 2.34	\$ 2.55	\$ 2.64						
AEO 1987	Table A3, Page 35	0.7320		\$ 2.13	\$ 2.34	\$ 2.58						
AEO 1988	not published (see note)	0.7569		\$ 2.08	\$ 2.23	\$ 2.40						
AEO 1989	Table A3, Page 47	0.7569		\$ 2.03	\$ 2.13	\$ 2.22						
AEO 1990	Table A2, Page 41	0.7856		\$ 1.87	\$ 2.02	\$ 2.11	\$ 2.24	\$ 2.37				
AEO 1991	Table A3, Page 46	0.8159			\$ 2.03	\$ 2.19	\$ 2.38	\$ 2.56				
AEO 1992	Table A3, Page 66	0.8159			\$ 1.95	\$ 2.13	\$ 2.28	\$ 2.45				
AEO 1993	Table A3, Page 84	0.8444			\$ 1.79	\$ 1.94	\$ 2.05	\$ 2.24				
AEO 1994	Table A3, Page 58	0.8639				\$ 1.89	\$ 1.97	\$ 2.22				
AEO 1995	Table A3, Page 76	0.8838				\$ 1.57	\$ 1.64	\$ 1.70				
AEO 1996	Table A3, Pages 78-79	0.9026				\$ 1.40	\$ 1.43	\$ 1.40	\$ 1.42			
AEO 1997	Table A3, Page 100	0.9211				\$ 1.40	\$ 1.35	\$ 1.30	\$ 1.21			
AEO 1998	Table A3, Page 104	0.9385				\$ 1.28	\$ 1.21	\$ 1.16	\$ 1.10	\$ 1.03		
AEO 1999	Table A3, Page 116	0.9541				\$ 1.25	\$ 1.19	\$ 1.11	\$ 1.04	\$ 0.97		
AEO 2000	Table A3, Page 121	0.9647					\$ 1.15	\$ 1.11	\$ 1.07	\$ 1.02		
AEO 2001	Table A3, Page 131	0.9787					\$ 1.15	\$ 1.07	\$ 1.03	\$ 1.00		
AEO 2002	Table A3, Page 129	1.0000					\$ 1.13	\$ 1.05	\$ 1.01	\$ 0.97		
AEO 2003	Table A3, Page 123	1.0240					\$ 1.19	\$ 1.14	\$ 1.12	\$ 1.09	\$ 1.07	
AEO 2004	Table A3, Page 137	1.0409						\$ 1.17	\$ 1.15	\$ 1.12	\$ 1.13	
AEO 2005	Table A3, Page 143	1.0600						\$ 1.18	\$ 1.16	\$ 1.18	\$ 1.24	
AEO 2006	Table A3, Page 137	1.0824						\$ 1.37	\$ 1.29	\$ 1.28	\$ 1.33	\$ 1.40

Source: U.S. Dept. of Energy, Energy Information Administration, *Annual Energy Outlook*, yearly publications, 1982 through 2006. Reference Case Tables' prices converted from various year dollars to 2000 dollars by dividing by a GDP Implicit Price Deflator, based on U.S. Dept. of Commerce data, as reported in U.S. Department of Energy, Energy Information Administration, *Annual Energy Review 2004*, DOE/EIA-0384(2004), Appendix D, Table D-1, page 373, "Population and U.S. Gross Domestic Product, Selected Years, 1949-2004," August 2005, <http://www.eia.doe.gov/emeu/aer/pdf/aer.pdf>. AEO 1988 was not published; values shown here are the averages (real) of the 1987 and 1989 AEO.

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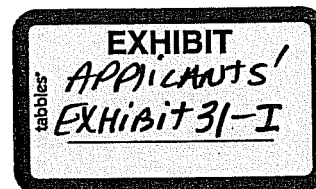
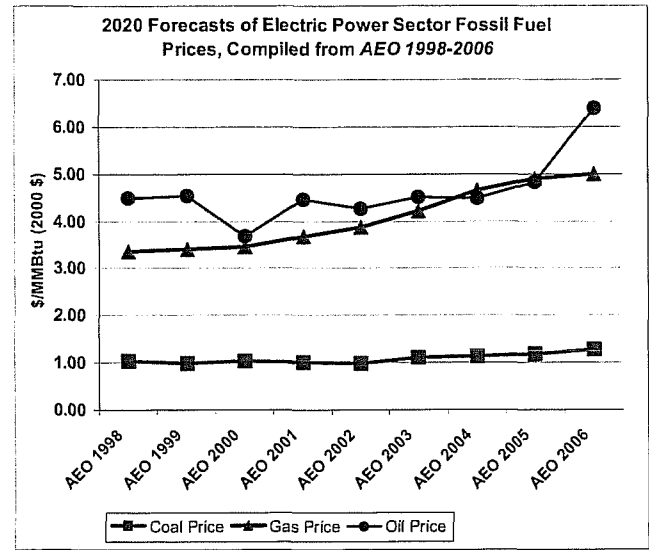
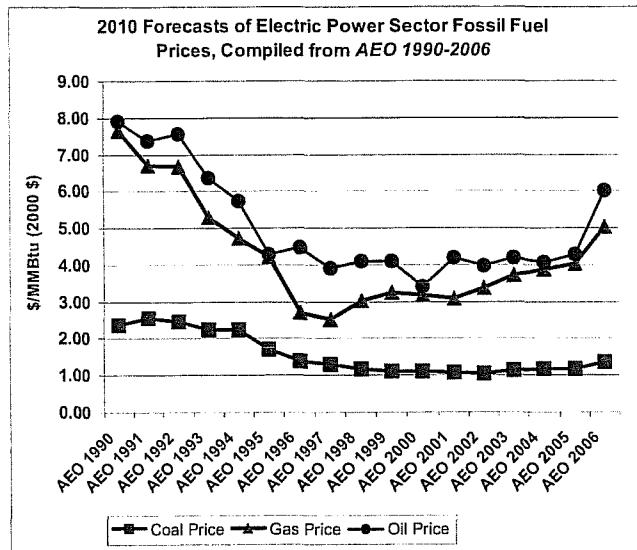
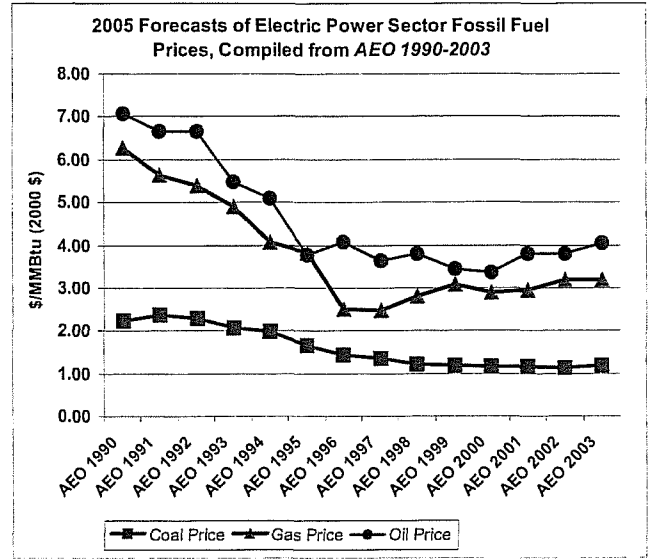
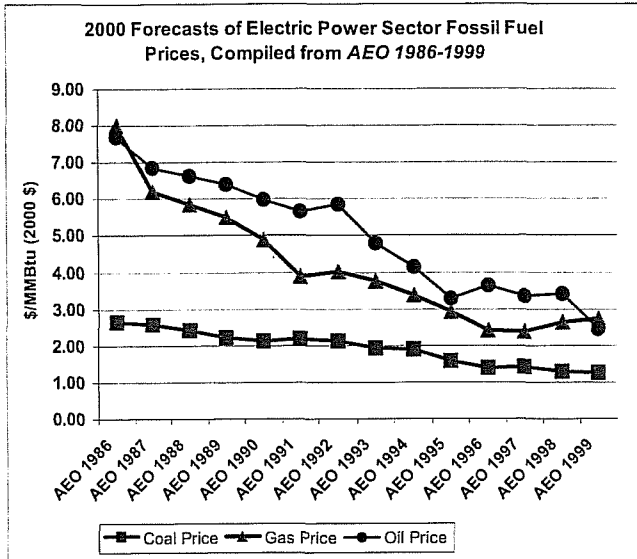


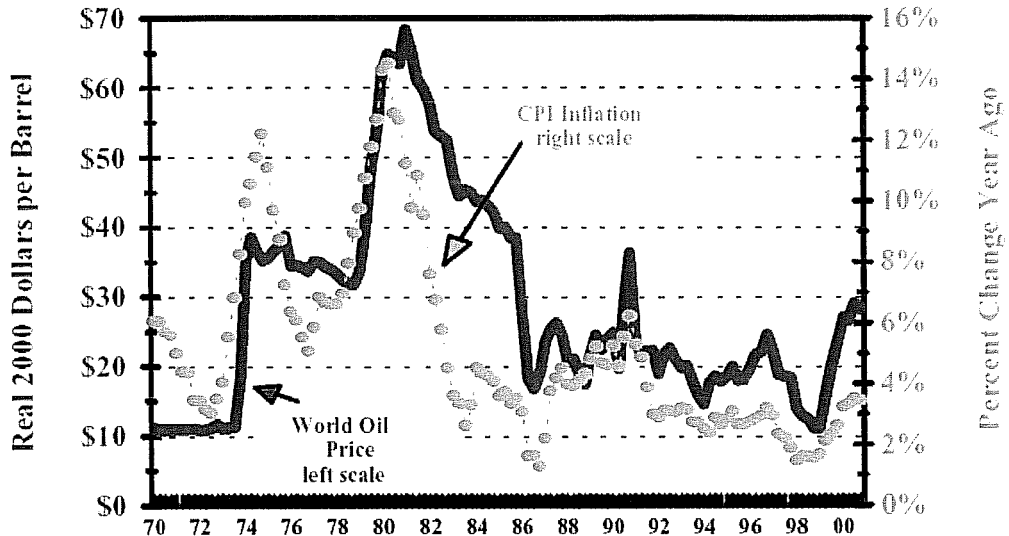
FIGURE 5
FLUCTUATIONS IN OIL AND NATURAL GAS FUTURES PRICES



Source: U.S. Dept. of Energy, Energy Information Administration, *Annual Energy Outlook*, yearly publications, 1982 through 2006. Reference Case Tables' prices converted from various year dollars to 2000 dollars by dividing by a GDP Implicit Price Deflator, based on U.S. Dept. of Commerce data, as reported in U.S. Department of Energy, Energy Information Administration, *Annual Energy Review 2004*, DOE/EIA-0384(2004), Appendix D, Table D-1, page 373, "Population and U.S. Gross Domestic Product, Selected Years, 1949-2004," August 2005, <http://www.eia.doe.gov/emeu/aer/pdf/aer.pdf>. AEO 1988 was not published; values shown here are the averages (real) of the 1987 and 1989 AEO. 1982 Petroleum prices calculated as volume-weighted averages of distillate, low-sulfur resid, and high-sulfur resid. For 1990, only heavy oil prices were forecast for electric power.

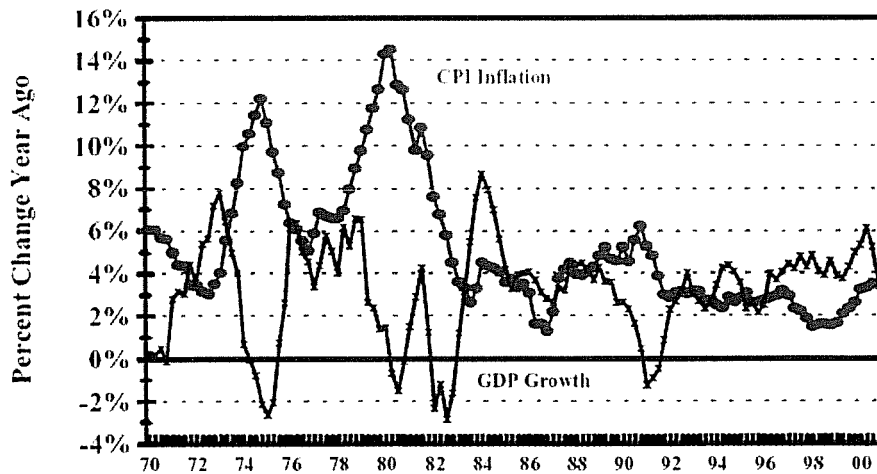
FIGURE 6
RELATIONSHIPS AMONG HISTORICAL WORLD OIL PRICES,
INFLATION RATES, AND GDP GROWTH

MOVEMENTS IN WORLD OIL PRICE AND INFLATION:



Sources:
 CPI: Bureau of Labor Statistics at <http://stats.bls.gov/cpihome.htm>
 World Oil Price: Refiner Acquisition Cost for Imported Oil: Energy Information Administration,
 Monthly Energy Review at <http://www.eia.doe.gov/mer/contents.html>

MOVEMENTS IN INFLATION AND GDP GROWTH:



Sources:
 CPI: Bureau of Labor Statistics at <http://stats.bls.gov/cpihome.htm>
 GDP: Bureau of Economic Analysis at <http://www.bea.doe.gov/beatd/st-tabs.htm>

Source: U.S. Department of Energy, Energy Information Administration, "Energy Price Impacts on the U.S. Economy," April 2001, Figures 4 and 5, http://www.eia.doe.gov/oiapl/economy/energy_price.pdf.

TABLE 5
AVERAGE PER-HOUSEHOLD ENERGY CONSUMPTION, 2001
(MMBtu per household)

State	Census Region	Net Energy	Electricity	Non-electric Energy		
				Total Non-electric	Nat.Gas & Petroleum	Other
Alabama	ESC	83.2	47.5	35.7	32.8	2.9
Alaska	PAC	141.4	24.7	116.7	108.3	8.4
Arizona	MTN	63.0	39.5	23.5	18.4	5.2
Arkansas	WSC	86.0	43.2	42.8	40.3	2.4
California	PAC	68.9	21.3	47.5	43.5	4.1
Colorado	MTN	102.2	26.3	75.8	71.5	4.4
Connecticut	NE	125.3	29.3	96.0	90.9	5.0
Delaware	SA	95.7	36.4	59.3	55.6	3.7
District of Columbia	SA	77.5	20.7	56.7	52.7	4.0
Florida	SA	55.3	46.2	9.1	4.2	4.9
Georgia	SA	88.5	44.5	44.0	40.4	3.6
Hawaii	PAC	28.1	20.6	7.5	4.7	2.8
Idaho	MTN	95.5	43.6	51.9	48.0	4.1
Illinois	ENC	122.8	28.9	94.0	91.7	2.3
Indiana	ENC	107.7	38.9	68.8	66.2	2.6
Iowa	WNC	107.3	34.0	73.3	69.2	4.1
Kansas	WNC	107.0	35.9	71.1	67.7	3.4
Kentucky	ESC	88.0	45.4	42.6	39.2	3.4
Louisiana	WSC	80.1	47.1	33.0	31.0	2.0
Maine	NE	113.1	24.6	88.5	83.6	4.9
Maryland	SA	94.9	37.6	57.2	53.4	3.8
Massachusetts	NE	122.4	23.2	99.1	94.3	4.9
Michigan	ENC	126.0	25.7	100.4	98.0	2.3
Minnesota	WNC	110.1	31.4	78.6	75.0	3.6
Mississippi	ESC	88.3	48.5	39.8	36.9	2.9
Missouri	WNC	106.6	41.5	65.1	61.4	3.6
Montana	MTN	96.0	32.0	64.0	60.2	4.1
Nebraska	WNC	117.1	40.2	76.9	73.4	3.5
Nevada	MTN	84.6	37.9	46.8	42.3	4.5
New Hampshire	NE	103.8	23.3	80.6	75.5	4.7
New Jersey	MA	112.8	25.9	86.8	84.4	2.4
New Mexico	MTN	86.5	21.5	65.0	60.5	4.4
New York	MA	110.8	19.5	91.4	81.8	9.5
North Carolina	SA	78.6	43.4	35.2	31.6	3.7
North Dakota	WNC	117.0	40.7	76.3	71.9	4.4
Ohio	ENC	109.2	33.4	75.8	73.5	2.3
Oklahoma	WSC	95.1	44.1	51.0	49.2	1.8
Oregon	PAC	79.5	40.4	39.0	33.2	5.8
Pennsylvania	MA	108.8	29.9	78.9	76.1	2.8
Rhode Island	NE	117.2	20.8	96.4	91.7	4.8
South Carolina	SA	72.6	47.2	25.4	21.8	3.6
South Dakota	WNC	99.7	37.1	62.6	59.0	3.6
Tennessee	ESC	86.9	50.6	36.3	33.2	3.1
Texas	WSC	80.0	47.9	32.1	30.9	1.2
Utah	MTN	111.6	28.9	82.8	78.6	4.1
Vermont	NE	108.7	23.2	85.4	81.1	4.7
Virginia	SA	88.7	42.9	45.8	41.9	3.9
Washington	PAC	91.4	43.2	48.3	42.9	5.4
West Virginia	SA	95.2	39.3	55.9	52.0	3.6
Wisconsin	ENC	103.3	29.5	73.8	71.4	2.4
Wyoming	MTN	100.9	32.3	68.6	63.3	5.3
United States		93.3	34.8	58.5	54.7	3.8

Source: Residential energy consumption data from Energy Information Administration, "State Data: Table S4: Residential Sector Energy Consumption Estimates, 2001," http://www.eia.doe.gov/emeu/states/sep_sum/html/sum_btu_res.html. Household data from U.S. Bureau of the Census, "Annual Estimates of Housing Units for the United States and States: April 1, 2000 to July 1, 2004," Publication H11-FST2004-01. at <http://www.census.gov/honest/housing/tables/H11-FST2004-01.xls>.

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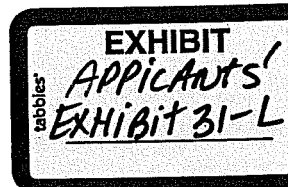
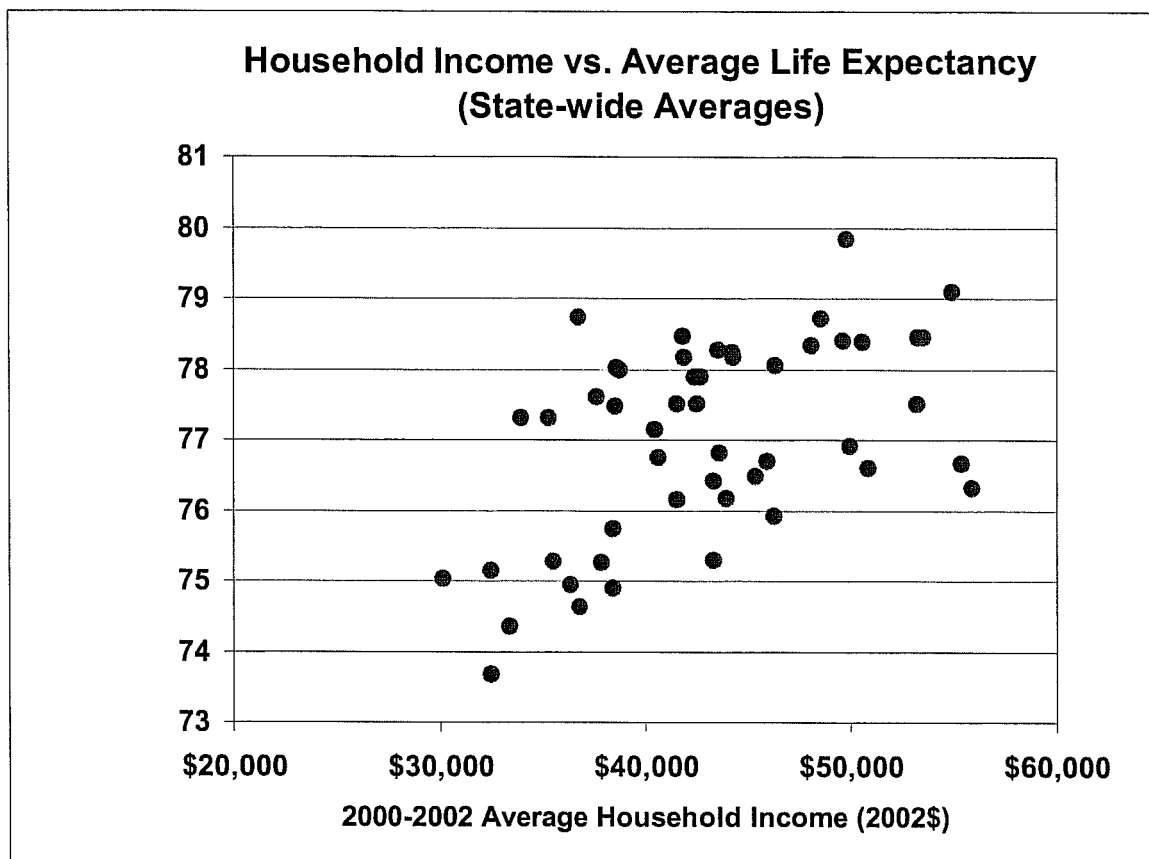


FIGURE 7
HOUSEHOLD INCOME VS. AVERAGE LIFE EXPECTANCY
(STATE-WIDE AVERAGES)



Sources:

Median Household Income: U.S. Census Bureau, *Current Population Survey, 2001, 2002, and 2003 Annual Social and Economic Supplements*, Last Revised: May 13, 2004, <http://www.census.gov/hhes/income/income02/statemhi.html>. (Income in 2002 dollars.)

Life Expectancy: U.S. Census Bureau, Population Division, *Interim State Population Projections, 2005*, "Table 2: Average Life Expectancy at Birth by State for 2000 and Ratio of Estimates and Projections of Deaths: 2001 to 2003," Internet Release Date: April 21, 2005,

TABLE 6 (part 1 of 2)
MEDIAN 2003 HOUSEHOLD INCOME FOR COUNTIES SERVED BY BIG STONE II

State	County	Companies Serving	Median Household Income (2003\$)	% of U.S. Income
United States			\$43,318	100.00%
Minnesota	<i>(ranked #7 among states)</i>		\$50,750	117.16%
	Becker	GRE, MRE, OTPC	\$38,766	89.49%
	Beltrami	GRE, OTPC	\$35,108	81.05%
	Big Stone	GRE, OTPC, MRE	\$33,003	76.19%
	Brown	CMMP, GRE	\$42,997	99.26%
	Cass	GRE, OTPC	\$37,800	87.26%
	Chippewa	CMMP, GRE, OTPC	\$38,296	88.41%
	Chisago	GRE, SMMP	\$58,543	135.15%
	Clay	GRE, MRE, OTPC	\$41,285	95.31%
	Clearwater	GRE, OTPC	\$32,504	75.04%
	Cook	GRE, SMMP	\$38,633	89.18%
	Cottonwood	CMMP, GRE, MRE	\$35,967	83.03%
	Dodge	CMMP, GRE, SMMP	\$54,603	126.05%
	Douglas	GRE, MRE, OTPC	\$41,908	96.75%
	Faribault	CMMP, GRE, SMMP	\$37,467	86.49%
	Goodhue	CMMP, GRE	\$50,356	116.25%
	Grant	GRE, MRE, OTPC	\$37,199	85.87%
	Jackson	CMMP, GRE, MRE	\$39,102	90.27%
	Kanabec	GRE, SMMP	\$40,974	94.59%
	Kandiyohi	CMMP, GRE, OTPC	\$41,726	96.32%
	Lac qui Parle	GRE, MRE, OTPC	\$34,271	79.11%
	Le Sueur	GRE, SMMP	\$48,139	111.13%
	Lincoln	GRE, HCP, OTPC	\$33,418	77.15%
	Lyon	GRE, HCP, MRE, OTPC	\$41,155	95.01%
	Martin	GRE, HCP, SMMP	\$38,632	89.18%
	McLeod	CMMP, GRE, MRE	\$47,633	109.96%
	Meeker	GRE, SMMP	\$43,308	99.98%
	Mille Lacs	GRE, SMMP	\$39,532	91.26%
	Nicollet	GRE, SMMP	\$46,307	106.90%
	Nobles	GRE, MRE	\$38,237	88.27%
	Olmsted	GRE, SMMP	\$56,721	130.94%
	Otter Tail	GRE, MRE, OTPC	\$37,420	86.38%
	Pope	GRE, OTPC	\$38,563	89.02%
	Redwood	GRE, OTPC, SMMP	\$38,288	88.39%
	Renville	CMMP, GRE	\$39,304	90.73%
	Rock	GRE, MRE	\$40,025	92.40%
	Scott	GRE, SMMP	\$74,001	170.83%
	Stearns	GRE, MRE	\$45,644	105.37%
	Steele	GRE, SMMP	\$48,614	112.23%
	Stevens	GRE, OTPC	\$39,422	91.01%
	Swift	GRE, MRE, OTPC	\$35,543	82.05%
	Todd	GRE, MRE	\$33,659	77.70%
	Wabasha	GRE, SMMP	\$45,028	103.95%
	Wadena	GRE, MRE	\$32,188	74.31%
	Waseca	CMMP, GRE, SMMP	\$43,567	100.57%
	Watonwan	GRE, HCP, MRE	\$37,014	85.45%
	Wilkin	GRE, MRE, OTPC	\$41,702	96.27%
	Wright	CMMP, GRE	\$60,253	139.09%
	Yellow Medicine	GRE, OTPC	\$36,200	83.57%

TABLE 6 (part 2 of 2)
MEDIAN 2003 HOUSEHOLD INCOME FOR COUNTIES SERVED BY BIG STONE II

State	County	Companies Serving	Median Household Income (2003\$)	% of U.S. Income
United States			\$43,318	100.00%
Iowa (ranked #29 among states)			\$42,278	97.60%
	Plymouth	HCP, MRE	\$45,349	104.69%
North Dakota (ranked #39 among states)			\$38,223	88.24%
	Barnes	MRE, OTPC	\$36,372	83.97%
	Burleigh	MDU, OTPC	\$45,634	105.35%
	Dickey	MDU, OTPC	\$33,951	78.38%
	Grand Forks	MRE, OTPC	\$38,686	89.31%
	Kidder	MDU, OTPC	\$28,562	65.94%
	Logan	MDU, OTPC	\$30,857	71.23%
	McLean	MRE, OTPC	\$36,744	84.82%
	Mountrail	MDU, OTPC	\$32,138	74.19%
	Nelson	MRE, OTPC	\$32,365	74.71%
	Pembina	MRE, OTPC	\$39,001	90.03%
	Renville	MDU, OTPC	\$40,359	93.17%
	Traill	MRE, OTPC	\$40,902	94.42%
South Dakota (ranked #40 among states)			\$38,008	87.74%
	Brookings	HCP, MRE, OTPC	\$37,835	87.34%
	Clay	HCP, MRE	\$30,168	69.64%
	Codington	MRE, OTPC	\$39,577	91.36%
	Corson	HCP, OTPC	\$22,683	52.36%
	Grant	MRE, OTPC	\$36,656	84.62%
	Hamlin	HCP, OTPC	\$36,838	85.04%
	Lake	HCP, OTPC	\$38,349	88.53%
	Marshall	HCP, OTPC	\$32,393	74.78%
	Moody	HCP, MRE, OTPC	\$38,055	87.85%

Source: Tabulated from U.S. Census Bureau, *Small Area Income & Poverty Estimates (SAIPE): Median household income, in dollars, 2003*, <http://www.census.gov/hhes/www/saipe/county.html>. Staff of Otter Tail Power Company identified the counties with communities to be served by Big Stone II.

Code to Company names: CMMP=Central Minnesota Municipal Power, GRE=Great River Energy, HCP=Heartland Consumers Power, MRE=Missouri River Energy, MDU=Montana-Dakota Utilities, OTPC=Otter Tail Power Company, SMMP=Southern Minnesota Municipal Power.

ANNEX B

RESUME OF DANIEL E. KLEIN

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Twenty-First Strategies

Twenty-First Strategies, LLC
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RESUME

DANIEL E. KLEIN

EDUCATION

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| 1975 | M.B.A., Graduate School of Business, Stanford University |
| 1973 | S.B., Urban Studies, Massachusetts Institute of Technology |

EXPERIENCE

Daniel E. Klein, President of Twenty-First Strategies, has over 30 years of consulting experience in energy, environmental, and economic analysis. For many years a Senior Vice President and Director of ICF Resources Incorporated, he founded Twenty-First Strategies in 1995 to offer energy and environmental consulting services to energy companies, government agencies, and others.

Over the course of his consulting career, Mr. Klein has conducted hundreds of projects related to energy and environmental concerns, energy markets, electric utility fuel use, coal supply, transportation, and antitrust issues. His work in recent years has focused primarily on climate change, electric power, and related issues, both on policy issues from the government side as well as strategies for the private sector. Mr. Klein earned a Bachelor's degree from MIT and an MBA from the Stanford Graduate School of Business. Selected examples of his recent work include the following:

Environmental Policy and Analysis

- **Global Climate Change and Electric Utilities.** Mr. Klein has directed efforts with electric utilities and government agencies to develop data and methods for assessing and planning for potential climate change initiatives. These efforts include developing new analytic frameworks for estimating potential impacts on electric power systems, and evaluating risk mitigation strategies. He directed efforts to assist the Administration develop and implement portions of the Climate Change Action Plan in the 1990s, and is continuing a variety of analytic efforts related to the Global Climate Change Initiative. In the electric utility/DOE Climate Challenge program, he was responsible for recruiting new member utilities and for helping measure and report on progress made. He is presently working with electric utilities and others to identify and implement voluntary programs to reduce greenhouse gas emissions as part of their efforts under the Power PartnersSM program.
- **Environmental Externalities.** Mr. Klein has directed several efforts supporting the U.S. Department of Energy in matters related to the use of environmental externalities. For DOE's Fossil Energy office, he directed an assessment of the socioeconomic impacts associated with potential rate increases that may result from the inclusion of externalities in electric power resource planning. He has provided internal critiques and analytic support to efforts to use the damage function approach for quantifying externalities. Working with private sector groups, he has developed a framework for evaluating mortality implications stemming from income effects of changes in power costs, and has used this framework in testimony.
- **Carbon Sequestration.** Mr. Klein has provided numerous support efforts to DOE's Carbon Sequestration Program since its inception. He has co-authored over 20 papers and conference presentations communicating the potential for carbon sequestration and DOE's activities in this area. He has additionally co-authored several book chapters and industry journal articles on the

topic. He assisted DOE in its review of the recent draft IPCC Special Report on Carbon Dioxide Capture and Storage. He developed, compiled, and maintains what has become the most comprehensive database of carbon sequestration R&D activities available, and made this available via the Internet at <http://carbonsequestration.us>.

- ***Clean Air Act Analyses.*** In numerous studies for public and private sector clients, Mr. Klein has analyzed the impacts of acid rain mitigation proposals, New Source Performance Standards, NO_x restrictions, and several other Clean Air Act issues on the electricity, coal, transportation, and labor markets. He developed state-of-the-art approaches for estimating impacts on electric utilities, coal mining, and transportation industries.
- ***Climate Change Mitigation Strategy in Eastern Europe.*** Mr. Klein led the U.S. portion of a multinational team to create a climate change strategy for the city of Donetsk, Ukraine. Under funding provided by U.S. Agency for International Development, Twenty-First Strategies partnered with the Ecology and Environment Department of the Donetsk City Council and the U.S.-based Center for Clean Air Policy. The project developed a GHG inventory for the city of Donetsk, and identified potential GHG mitigation activities and the associated cost and effectiveness.
- ***Utility Coal Combustion By-Products.*** Mr. Klein has analyzed issues related to disposal practices and potential standards for electric utility ash and sludge wastes. These efforts have included estimating past and future waste disposal volumes, identifying current regulatory requirements, and evaluating the costs and other potential impacts of alternative waste management practices. Working with the American Coal Ash Association, Utility Solid Waste Action Group, and others, he has directed studies and made conference presentations concerning beneficial use of coal combustion by-products and associated reductions in greenhouse gas emissions.
- ***Environmental Aspects of Coal Mining and Transportation.*** Mr. Klein has led numerous studies of the impacts of strip mining regulations, fugitive dust limits for surface coal mining, federal coal leasing policies, environmental impacts of rail deregulation, and related issues.
- ***Oil Spill Environmental Impacts.*** On behalf of several Alaskan Native Corporations, Mr. Klein directed litigation support efforts related to the Exxon VALDEZ oil spill. These efforts have included field and technical studies, economic impacts, and impacts on land values.

Economic and Market Analysis and Forecasting

- ***Energy Market Forecasting.*** For 20 years, Mr. Klein directed major portions of ICF Resources' extensive efforts in forecasting short- and long-term conditions in the fuel and power markets. He developed forecasting methodologies and related data bases, developed and enhanced ICF's Coal and Electric Utilities Model, and designed its successor models. These models and methodologies were used in dozens of market and strategic studies for private clients and policy analyses for the public sector.
- ***Antitrust Market Analysis.*** In major antitrust cases, Mr. Klein has served as an expert witness in the identification of relevant coal and transportation markets. In work with the Department of Justice and major coal companies, he tested and implemented new market delineation techniques based upon demand cross-elasticities; this work currently serves as the basis for Department of Justice policy. Mr. Klein has also testified as a witness before the ICC on issues regarding railroad transportation markets, and in private antitrust cases.
- ***Energy and Mineral Appraisals.*** Rapid swings in energy and minerals markets over the past two decades have led to sharp changes in the value of reserves and producing operations. Appraisals have often been needed to set property values at different points in time for tax basis determination, prudence of procurement decisions, losses resulting from federal takings, property tax assessments,

and other purposes. Mr. Klein has led numerous projects relating to reconstructing appraisals appropriate to past market conditions and knowledge. These efforts have included oil, gas, coal, geothermal, and various metals and mineral properties.

Energy and Transportation Issues

- ***Adequacy of Energy Data.*** Mr. Klein is a recognized expert on the use and misuse of coal and other energy data, particularly as they apply to modeling and forecasting efforts. He has developed new approaches toward incorporating disparate sources of information, and has been published at length on the pitfalls of using public data. For the Department of Justice, Mr. Klein directed the development of the coal reserve data base now used in DOJ's competition review procedures.
- ***Federal Coal Leasing Policies.*** In several studies for public and private sector clients, Mr. Klein has evaluated impacts of leasing moratoriums, approaches to determining levels of leasing, concepts of fair market value, impacts of diligence and royalty requirements, and many other aspects of this complex regulatory program. He testified as an expert witness before the Commission on Fair Market Value Policy for Federal Coal Leasing.
- ***Transportation Policy.*** Mr. Klein has led studies evaluating impacts of rail rate deregulation, economic and energy impacts of coal slurry pipelines, railroad leasing of federal coal, coal transportation costs for different modes, and many others. In efforts with DOE, he conducted studies of the effects of the Staggers Rail Act on coal and electricity markets. He has testified before the Interstate Commerce Commission on market dominance issues.
- ***Transportation Strategies.*** Mr. Klein has worked with shippers to formulate strategies for enhancing their competitive alternatives and improving their bargaining position. Working with carriers, law firms, investment bankers, and others, he has developed market forecasts of rail traffic and revenues, analyzed impacts of economic and legislative uncertainties, and helped to develop approaches for enhancing market share and contribution.

SELECTED PUBLICATIONS AND PRESENTATIONS

- "Climate Vision, Power PartnersSM, & GHG Activities for Public Power," presented to the American Public Power Association seminar on "Climate Change: Making Community-Based Decisions in a Carbon-Constrained World," Washington DC, Feb. 28, 2006.
- "New Developments in Carbon Capture and Storage" (co-authored with Sean Playsynski, DOE/NETL), presented at the 9th Electric Utilities Environmental Conference: Air Quality & Global Climate Change, Tucson, Arizona, January 23-25, 2006.
- "Prospects for Participation of Methane Sectors in Emissions Trading Programs in California," prepared for the Center for Clean Air Policy, October 2005, http://www.climatechange.ca.gov/documents/2005-10-14_CCAP_REPORTS/CCAP_REPORT_METHANE.PDF
- "Suitability of Methane Sources for Greenhouse Gas Emissions Trading," prepared for the Center for Clean Air Policy, Washington D.C. Draft report dated August 2005; report publication upcoming.
- "New Developments in DOE's Carbon Sequestration Program" (co-authored with Robert L. Kane, DOE), presented at the 8th Electric Utilities Environmental Conference: Air Quality & Global Climate Change, Tucson, Arizona, January 24-26, 2005.
- "Climate VISION Update: Policy Drivers for Climate Change and Energy Security" (co-authored with David Berg, DOE), presented at the 8th Electric Utilities Environmental Conference: Air Quality & Global Climate Change, Tucson, Arizona, January 24-26, 2005.

- “CCP Use and Their Impact on Greenhouse Gases,” presented to American Coal Ash Association, Canadian Industries Recycling Coal Ash, Midwest Coal Ash Association, Dearborn, Michigan, June 8, 2004.
- “Climate VISION & the Administration’s Global Climate Change Initiative” (co-authored with David Berg, DOE), presented at the 7th Electric Utilities Environmental Conference: Air Quality & Global Climate Change, Tucson, Arizona, January 20-22, 2004.
- “Estimating GHG Savings from Use of Coal Combustion Products: Methodology & Results for 2000-2001” (co-authored with James Roewer, Utilities Solid Waste Action Group (USWAG)), presented at the 7th Electric Utilities Environmental Conference: Air Quality & Global Climate Change, Tucson, Arizona, January 20-22, 2004.
- “DOE’s Carbon Sequestration Program and New Directions for Meeting Global Climate Change Goals” (co-authored with Robert L. Kane, DOE), presented at Combustion Canada ’03, Vancouver, British Columbia, Canada, September 21-24, 2003.
- “Database of Carbon Sequestration R&D Projects in the U.S.” (co-authored with Robert L. Kane, DOE), presented at 2nd Annual Conference on Carbon Sequestration, May 5-8, 2003, Alexandria, Virginia.
- “Incorporating Mortality Reductions From Use of Low-Cost Power into Evaluations of Externality Proposals,” presented at the Valuing Externalities Workshop, U.S. Dept. of Energy National Energy Technology Laboratory, Alexandria VA, Feb. 20-21, 2003, <http://www.netl.doe.gov/publications/proceedings/03/valuing-ext/Klein.pdf>.
- “Mortality Reductions from Use of Low-Cost Coal-Fueled Power: An Analytical Framework,” presented at the 6th Electric Utilities Environmental Conference: Air Quality & Global Climate Change, Tucson, Arizona, January 27-29, 2003.
- “DOE’s Carbon Sequestration Program and New Directions for Meeting Global Climate Change Goals” (co-authored with Robert L. Kane, DOE), presented at the 6th Electric Utilities Environmental Conference: Air Quality & Global Climate Change, Tucson, Arizona, January 27-29, 2003.
- “Mortality Reductions from Use of Low-Cost Coal-Fueled Power: An Analytical Framework” (co-authored with Ralph L. Keeney, Duke University Fuqua School of Business), prepared for the Center for Energy and Economic Development, *et al.*, December 2002, <http://www.ccednet.org/kkhealth/index.asp>.
- “Carbon Sequestration: An Option for Mitigating Global Climate Change” (co-authored with Robert L. Kane, DOE), published as Chapter 6 in *Environmental Challenges and Greenhouse Gas Control for Fossil Fuel Utilization in the 21st Century*, edited by M. Mercedes Maroto-Valer, Chunshan Song, and Yee Soong, New York: Kluwer Academic/Plenum Publishers, 2002.
- “A Database of Carbon Sequestration R&D Projects in the U.S.” (co-authored with Robert L. Kane, DOE), presented at the 5th Electric Utilities Environmental Conference: Air Quality, Global Climate Change, Renewable Energy & Emergency Response, Tucson, Arizona, January 22-25, 2002.
- “Carbon Sequestration: An Option for Mitigating Global Climate Change” (co-authored with Robert L. Kane, DOE), published in *Chemical Engineering Progress*, June 2001, pp. 44-52.
- “Opportunities for Advancements in Chemical Processes in Carbon Sequestration and Climate Change Mitigation” (co-authored with Robert L. Kane, DOE), presented at the American Chemical Society 221st Annual Meeting, San Diego California, April 4, 2001.
- “Carbon Sequestration: A Third Pathway for Mitigating Global Climate Change” (co-authored with Robert L. Kane, DOE), presented at the Electric Utilities Environmental Conference, Tucson, Arizona, January 8-12, 2001.

- "CO₂ Sequestration: Expanding Our Options for Mitigating Global Climate Change" (co-authored with Robert L. Kane, DOE), presented at the 93rd Annual Meeting and Exhibition of the Air & Waste Management Association, Salt Lake City, Utah, June 2000.
- "Environmental Benefits of Fossil Energy Technologies and Importance for Future Carbon Mitigation Costs" (co-authored with Robert L. Kane, DOE), presented at Combustion Canada '99: Combustion and Global Climate Change, Canada's Challenges and Solutions, Calgary, Alberta, Canada, May 26-28, 1999.
- "CO₂ Sequestration: Opportunities and Challenges" (co-authored with Robert L. Kane, DOE, and Howard J. Herzog, MIT Energy Laboratory), presented at Combustion Canada '99: Combustion and Global Climate Change, Canada's Challenges and Solutions, Calgary, Alberta, Canada, May 26-28, 1999.
- "Climate Challenge Program: Lessons Learned and Prospects for the Future" (co-authored with Daniel R. Cleverdon, Cadmus Group Inc.), presented at Combustion Canada '99: Combustion and Global Climate Change, Canada's Challenges and Solutions, Calgary, Alberta, Canada, May 26-28, 1999.
- "Coal Mine Methane: Opportunities for Low-Cost Zero-GHG Power" (co-authored with Paul Teske, MCNIC Oil & Gas Co.), presented at Combustion Canada '99: Combustion and Global Climate Change, Canada's Challenges and Solutions, Calgary, Alberta, Canada, May 26-28, 1999.
- "Buyer vs. Seller Liability in International Emissions Trading," presented at the CCAP International Emissions Trading Dialog Group, Toronto, Ontario, Canada, March 4, 1999.
- "Fossil Energy-Related Greenhouse Gas Control Strategies and Associated Environmental Benefits" (co-authored with Robert L. Kane, DOE), presented at the Electric Utilities Environmental Conference: Science, Regulations & Impacts of SO₂, CO₂, O₃, NO_x & Mercury, Tucson AZ, January 11-13, 1999.
- "Western Utilities' Outlook for Greenhouse Gas Emissions and Options for Achieving Reductions" (co-authored with Dr. Prabhu Dayal, Tucson Electric Power Co.), presented at the Electric Utilities Environmental Conference: Science, Regulations & Impacts of SO₂, CO₂, O₃, NO_x & Mercury, Tucson AZ, January 11-13, 1999.
- "Coal Mine Methane Capture in Southwestern Virginia" (co-authored with Paul Teske, MCNIC Oil & Gas Co.), presented at the Air & Waste Management Association's Second International Specialty Conference on Global Climate Change, Crystal City VA, October 13-16, 1999.
- "Global Climate Change: The Road to Kyoto," (co-authored with C.V. Mathai, Arizona Public Service Co., and Nikhil Desai), published in EM Magazine, a publication of the Air & Waste Management Association, November 1997.
- "Managing the Climate Change Risks in a Restructuring Electric Utility Industry" (co-authored with Robert L. Kane, DOE), presented at the International Climate Change Conference & Technologies Exhibition, Baltimore MD, June 12-13, 1997.
- "Voluntary Programs to Reduce GHG Emissions: Cross-National Perspectives" (co-authored with Robert L. Kane, DOE), presented at the 90th Annual Meeting and Exhibition of the Air & Waste Management Association, Toronto, Ontario, Canada, June 8-13, 1997.
- "Coal Mine Methane: New Market Opportunities for Power and Gas Providers," presented at the USEPA conference "Deregulation and New Coalbed Methane Opportunities," Pittsburgh, PA, April 22, 1997.
- "Interactions Between Greenhouse Gas Policies and Acid Rain Control Strategies" (co-authored with Robert L. Kane and Larry Mansueti, DOE), presented at the Air & Waste Management Association's Acid Rain and Electric Utilities II Conference, Scottsdale, AZ, January 21-22, 1997.

- "Climate Change, Voluntary Programs, and Risk Management in a Restructuring Industry" (co-authored with Robert L. Kane, DOE), presented at the International Association for Energy Economics 11th Annual North American Conference, Boston, Massachusetts, October 28, 1996.
- "United States Strategy for Mitigating Global Climate Change" (co-authored with Robert L. Kane, DOE), presented at the Third International Conference on Carbon Dioxide Removal, Boston, Massachusetts, September 9, 1996.
- "Climate Challenge: Relating Electric Utility Voluntary Actions to National Goals" (co-authored with Robert L. Kane, DOE), presented at the 89th Annual Meeting and Exhibition of the Air & Waste Management Association, Nashville, Tenn., June 23-28, 1996.
- "Meeting the Climate Change Challenge: Climate-Related Activities of the U.S. Department of Energy's Office of Fossil Energy" (co-authored with Robert L. Kane, DOE, and Steven Reich, ICF), presented at the 18th IAEE International Conference, Washington DC, July 5-8, 1995.
- "Trends in Greenhouse Gas Emissions in the U.S. and Potential Future Outlook" (co-authored with Robert L. Kane, DOE, and Steven Winkelman, ICF), presented at the 88th Annual Meeting and Exhibition of the Air & Waste Management Association, San Antonio, Texas, June 18-23, 1995.
- "The Challenge of Climate Change: A Progress Report on the Potential for Voluntary Industry-Government Partnerships to Reduce Greenhouse Gas Emissions" (co-authored with Robert L. Kane, DOE, and Nikhil Desai, ICF), presented at the 88th Annual Meeting and Exhibition of the Air & Waste Management Association, San Antonio, Texas, June 18-23, 1995.
- "Further Opportunities for Coal Combustion Byproducts to Reduce Greenhouse Gas Emissions" (co-authored with Samuel S. Tyson, ACAA, and Steven Winkelman, ICF), presented at the CCB Management and Use Workshop, Memphis, Tennessee, April 17-19, 1995.
- "Climate Change and New Opportunities for Coal Combustion Byproducts" (co-authored with Samuel S. Tyson, ACAA), presented at the 11th International Symposium on Use & Management of Coal Combustion Byproducts, Orlando, Florida, January 15-19, 1995.
- "Full Consideration of Externalities" (co-authored with David Kathan, ICF), presented to the NARUC - DOE Fifth National Integrated Resource Planning Conference, May 1994.
- "Greenhouse Gas Emission Reduction Options and Strategies" (co-authored with Robert L. Kane, DOE), presented to the Air & Waste Management Association International Specialty Conference on Global Climate Change: Science, Policy, and Mitigation Strategies, Phoenix, Arizona, April 1994.
- "The Dynamic Energy & Greenhouse Emission Evaluation System (DEGREES)" (co-authored with Ira H. Shavel, et. al.), presented to the 15th Annual North American Conference, International Association for Energy Economics, Seattle, Washington, October 1993.
- "Carbon Taxes and Carbon Limits Are Not the Same" (co-authored with Ira H. Shavel, David J. Doyle, and Jerry L. Golden), presented to the 15th Annual North American Conference, International Association for Energy Economics, Seattle, Washington, October 1993.
- "Impacts of Including Externalities in National Electric Utility Planning" (co-authored with David Kathan, ICF), presented to the 15th Annual North American Conference, International Association for Energy Economics, Seattle, Washington, October 1993.
- "Marketing Gas to Future Electricity Producers More Than Writing Purchase Orders" (co-authored with B. Venkateshwara, ICF), published in *Natural Gas*, July 1988.
- "New Competition for the Railroads," published in *The Journal of Commerce*, May 1, 1986.

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- “Lower Sulfur Coals as a Means of Reducing Sulfur Dioxide Emissions,” presented to the First International Conference on Acid Rain: Regulatory Aspects and Engineering Solutions, published in *Power Magazine*, Washington, D.C., March 1984.
- “Forecasting Employment Impacts of Acid Rain Control Programs,” presented to Resources for the Future Symposium, Washington, D.C., December 1983.
- “Adequacy of Low-Sulfur Coal Supplies for Meeting Acid Rain Requirements,” presented to the Air Pollution Control Association, 76th Annual Meeting and Exhibition, Atlanta, Georgia, June 1983.
- “The Outlook for Coal in the Next Twenty Years” (co-authored with C. Hoff Stauffer, Jr., ICF), presented to the Electric Power Research Institute Fuels Supply Seminar, Memphis, Tennessee, December 1981, published in *Selected Papers on Fuel Forecasting and Analysis*, EPRI EA-3015, May 1983.
- “Relationship of Coal and Oil Prices” (co-authored with C. Hoff Stauffer, Jr., ICF), December 1981, published in *Selected Papers on Fuel Forecasting and Analysis*, EPRI EA-3015, May 1983.
- “Effects of Resource Depletion on Future Coal Prices,” presented to the Electric Power Research Institute Fuels Supply Seminar, St. Louis, Missouri, October 1982, published in *Proceedings: Fuel Supply Seminars*, EPRI EA-2994, March 1983.
- “Coal Market Forecasts, the Clean Air Act, and Effects on Western Coal Production,” presented to the Western Interstate Energy Board, Santa Fe, New Mexico, May 1982.
- “National and Regional Coal Reserves Information for Planning and Policy: The Problems,” presented to the Electric Power Research Institute Workshop on Applied Coal Geoscience and the Electric Utilities, Austin, Texas, November 1981.
- “Coal Supply, Demand, and Transportation,” presented to the Coal Week/Energy Bureau Conference on Coal Transportation, Arlington, Virginia, October 1980.

SELECTED REPORTS

- “Mortality Reductions from Use of Low-Cost Coal-Fueled Power: An Analytical Framework” (co-authored with Ralph L. Keeney, Research Professor, Duke University Fuqua School of Business), prepared for the Center for Energy and Economic Development, *et al.*, December 2002.
- “Suitability of Methane Sources for Emissions Trading,” prepared for the Center for Clean Air Policy, publication forthcoming.
- “Climate Challenge Program Report” (co-authored with Princeton Economic Research, Inc.), U.S. Department of Energy Publication DOE/FE-0355, December 1996.
<http://www.eere.energy.gov/climatechallenge/progressreport/titlpg.htm>.
- “Increased Fly Ash Use Under the Climate Challenge Program: A Summary of Participation Accords Between the Electric Utilities and the U.S. Department of Energy,” prepared for American Coal Ash Association, January, 1996
- “Economic Impacts of Climate Change Policies on TVA,” submitted to the Tennessee Valley Authority, June 1993.
- “Coal Combustion Waste Management Study”, submitted to Department of Energy, Office of Fossil Energy, February, 1993.
- “Screening Analysis of H.R. 2663: ‘CO₂ Offsets Policy Efficiency Act of 1991’”, submitted to Department of Energy, Office of Fossil Energy, January 1992.
- “Assessment of Greenhouse Gas Emissions Policies of the Electric Utility Industry: Costs, Impacts, and Opportunities,” submitted to the Edison Electric Institute, January 1992.

- "Low Sulfur Coal Markets: Past and Future," submitted to the Alliance for Clean Energy, October 1987.
- "Analysis of Issues Associated with Railroad Control of Coal," submitted to Rocky Mountain Energy, May 1986.
- "Analysis of Cost-Effective, Phased-In Reductions of Sulfur Dioxide Emissions," submitted to the Alliance for Clean Energy, February 1984.
- "The Effect on Producer Surplus of Increasing Coal Prices in Various Western Coal-Producing Regions," submitted to the Department of Justice, February 1982.
- "Potential Impacts of Overleasing and Underleasing of Federal Coal," submitted to the U.S. Department of Energy, August 1981.
- "An Examination of Lognormality of Coal Seam Thickness," September 1980.
- "Coal and Electric Utilities Model Documentation," submitted to the Environmental Protection Agency, May 1980.
- "Concepts and Issues in Discounted Cash Flow Analysis for Estimating Fair Market Value for Federal Coal," submitted to the Department of Interior, April 1980.
- "Coal Resource Information, Volume 3: Case Studies in Evaluating the Adequacy of Information," submitted to the Electric Power Research Institute, EPRI EA-673 Vol. 3, March 1980.
- "The Potential Energy and Economic Impacts of Coal Slurry Pipelines," submitted to the Department of Energy, January 1980.
- "Observations on Fair Market Value for Federal Coal Leases," submitted to the Fair Market Value Task Force, Department of Interior, December 1979.
- "The Demand for Western Coal and Its Sensitivity to Key Uncertainties," submitted to the Departments of Interior and Energy, September 1978.
- "Economic Considerations in Industrial Boiler Fuel Choice," submitted to the Congressional Budget Office, June 1978.
- "Energy and Economic Impacts of H.R. 13950 (Surface Mining Control and Reclamation Act of 1976)," submitted to the Council on Environmental Quality and U.S. EPA, September 1977.

EXPERT TESTIMONY

- Pre-Filed Rebuttal Testimony of behalf of the Center for Energy and Economic Development, regarding the human costs associated with the higher costs of replacement power, before the Public Utilities Commission of the State of California, Docket No. A.02-05-046, "Application of Southern California Edison Company (U 338-E) Regarding the Future Disposition of the Mohave Generating Station," May 2003.
- Supplemental Declaration on behalf of the UMWA Health and Retirement Funds analyzing low-volatile metallurgical coal markets and market power potential, before the U.S. District Court for the District of Columbia, Joseph P. Connors, Sr. et al. v. Island Creek Corp, Drummond Coal Co., et al., C.A. Nos. 87-1210-SSH and 87-1973-SSH, October 23, 1995.
- Declaration and Deposition on behalf of UMWA Health and Retirement Funds regarding relationships between contribution rates to the Funds and coal market prices, and changes in U.S. coal industry structure, before the U.S. District Court for the District of Columbia, In re: United Mine Workers of America Employee Benefit Plans Litigation, Master File No. MDL 886, May-October, 1994.
- Declaration on behalf of UMWA Health and Retirement Funds regarding relationships between contribution rates to the Funds and coal market prices, and changes in U.S. coal industry structure, before the

U.S. District Court for the District of Columbia, Joseph P. Connors, Sr. et al. v. Island Creek Corp, Drummond Coal Co., et al., C.A. Nos. 87-1210-SSH and 87-1973-SSH, March 16, 1994.

Testimony on behalf of the UMWA Health and Retirement Funds regarding trends in coal production, union market shares, and sensitivity to changes in union costs, before the U.S. District Court, Western District of Virginia, Lena Pearl McGlothlin et al. v. Joseph P. Connors et al., Civil Action No. 92-0022-A, April 1, 1992.

Declaration and Deposition on behalf of the UMWA Health and Retirement Funds regarding past trends and forecasts of coal production, productivity, and labor-hours for specific companies and for all UMWA mines, in the U.S. District Court for the District of Columbia, In Re: United Mine Workers of America Employee Benefit Plans Litigation, Multidistrict Litigation No. 886 CA. No. 88-0969-TH, February-March 1992.

Affidavits on behalf of Whitney Benefits Inc. relating to federal coal leasing, western coal markets, and royalty rates, before the United States Claims Court, Whitney Benefits Inc. and Peter Kiewit Sons' Co. v. United States of America, No. 499-83L, February-March, 1992.

Deposition on behalf of Chugach Alaska Corporation and subsidiaries regarding methodology and findings of coal property valuation, before the U.S. Bankruptcy Court for the District of Alaska, Case Nos. 91-00207-3-DMD through 91-00211-3-DMD, August 27, 1991.

Declarations on behalf of the UMWA Health and Retirement Funds regarding trends in coal markets, mining productivity, and union status, before the U.S. District Court for the District of Columbia, Civil Actions Nos. 89-1744 and 90-0674, March 1990 - January 1992.

Deposition on behalf of Kansas City Southern Industries relating to markets for coal transportation and to the competitive viability of coal slurry pipelines, ETSI Pipeline Project et al. v. Burlington Northern, Inc. et al., Civil Action Number B-84-979-CA, U.S. District Court for the Eastern District of Texas, Beaumont Division, November 29-30, 1988.

Testimony and Verified Statements before the Interstate Commerce Commission on behalf of Consolidated Rail Corporation, relating to railroad market dominance issues, I.C.C. No. 37931S, August-November 1987.

Testimony before the Commission on Fair Market Value Policy for Federal Coal Leasing, regarding valuation concepts for federal coal leasing, September 7, 1983.

Testimony and Verified Statement of behalf of Consolidated Edison Company of New York, Inc. before the State of New York Department of Environmental Conservation, regarding low sulfur coal reserves and production, UPA #20-81-0020 (Ravenswood Coal Conversion) and UPA #20-81-0009 (Arthur Kill Coal Conversion), January-February 1983.

Testimony and Deposition on behalf of Mead Corporation regarding metallurgical coal markets in the U.S., Mead Corporation v. Occidental Petroleum Corporation, Civil Action No. C-3-78-268, U.S. District Court for the Southern District of Ohio, November 1978.

Testimony before the U.S. Subcommittee on Public Lands and Resources of the Committee on Energy and Natural Resources, related to energy and economic impacts of the Surface Mining Control and Reclamation Act of 1976, May 11, 1977.

EMPLOYMENT HISTORY

Twenty-First Strategies, LLC	President	1995-present
ICF Resources Incorporated	Senior Consultant	1995-1997
	Senior VP & Director	1988-1995
ICF Incorporated	Vice President	1980-1988

City of Palo Alto, California	Associate—Project Manager	1975-1980
Federal Energy Administration,	Operations Analyst	1974-1975
Office of Data Policy	Data Analyst	1974
Atlanta (GA) Board of Education	Systems Programmer	1970-1973