



12 May 2008

RE: Board of Environmental Review (BER) Decision to Remand Highwood Generation Station Air Quality Permit for Further Particulate Review

Chairman Shockley, members of the committee, for the record my name is Tim Gregori and I am the General Manager/CEO of Southern Montana Electric Generation and Transmission Cooperative (Southern Montana Electric G&T). Southern Montana Electric G&T provides wholesale electric energy and related supply services to five rural electric distribution cooperatives in south central Montana, and a select number of commercial customers served by the City of Great Falls through its PSC licensed supply arm Electric City Power. Collectively, these entities meet the electric energy needs of approximately 66,000 Montanans.

Background:

Over the course of the past six years Southern Montana Electric G&T has worked with great resolve to put in place an affordable, reliable and clean source of electric energy and related services to backfill the electric supply shortfall left in the wake of the Bonneville Power Administration's (BPA's) unilateral decision to begin curtailing service to Southern Montana Electric G&T effective 1 July 2008. Forty (49) days from today Southern Montana Electric G&T will experience a significant decline in its right to purchase from BPA - this purchase right will be fully extinguished by September 2011.

In October 2004, under guidelines developed by the United States Department of Agriculture Rural Utilities Service (RUS), Southern Montana Electric G&T completed an extensive analysis of suitable supply alternatives capable of meeting the future wholesale power requirements of the member systems it serves. The conclusion reached in this structured Alternative Evaluation Study was that the best long term solution to meet the energy supply needs of the member systems served by Southern Montana Electric G&T is the construction of a 250 MW coal-fired electric generation facility near Great Falls, Montana. (Please note that the key assumptions used in the Alternative Evaluation Study are revisited on a monthly basis to ensure that the results of this analysis remain valid. Without exception Southern Montana Electric G&T has seen that the conclusions reached in the Alternative Evaluation Study are more valid today than when the study was first compiled in October 2004.)

As Montana has seen repeatedly since the nations need for affordable energy moved to center stage - reaching the conclusion that there is a need for affordable electricity is the

easy part. The difficulty comes when an entity moves forward to turn “bragawatts” into megawatts. Particularly in light of the fact that the process of securing permits necessary to construct an energy production facility can drag on for many years in the current regulatory environment. But unlike many of the projects that have lost the will to push on - Southern Montana Electric G&T remains resolute and has passed a number of critical milestones necessary to evidence project viability and financability. A list of those accomplishments is as follow:

- Project Development Milestones
 - Site Acquisition (Under Option)
 - Air Quality Permit (Final Permit issued by DEQ in May 2007)
 - Environmental Impact Statement (ROD) – May 2007
 - Solid Waste Disposal Licensed by MDEQ – Rep. Dickenson
 - Water: Raw, Waste and Potable Water
 - Large Generator Interconnection Agreement
 - Network Transmission Agreements
 - Operating and Spinning Reserve (draft agreements)
 - Project Labor Agreement – Union Labor
 - Site Zoned Industrial by Cascade County on 11 March 2008

Unfortunately, even though Southern Montana Electric G&T has made great strides in bringing its project to the point construction should begin - the project is at a stand still as the air permit languishes before the Montana Board of Environmental Review (BER) and the Montana Department of Environmental Quality (MDEQ). The primary obstacle that stands in the way of securing financing for HGS is the stigma placed on the air permit by the BER and the MDEQ. This uneasiness is underscored by the uncertainty of the permitting and permitting review process in Montana. Southern Montana Electric G&T recognizes that an appeal has also been filed on the zoning decision reached by Cascade County, but Southern Montana Electric G&T is prepared to move forward in the face of that challenge if the Air Permit issue is resolved in a timely fashion.

BER and DEQ Activities:

As Southern Montana Electric G&T moved from milestone to milestone it has consistently followed the rules and worked proactively with the DEQ, RUS and others to make HGS a facility that Montana can point to as a model for energy development. Is HGS the “perfect solution” – no, in my opinion a “perfect” solution does not exist - but HGS does represent the Best Available Control Technology that can be financed at this time using conventional financing standards. Southern Montana Electric G&T applauds the efforts of those entities that have the resources to assume risk and push the envelope of developing technologies - but assuming the cavalier role of proving “what might be possible” is best left for the federal government and industry participants that have reaped windfall profits as the nation feels the squeeze of diminishing energy supply. Southern Montana Electric G&T believes without doubt that HGS is state of the art, technologically sound and above all – financeable.

Despite its many accomplishments Southern Montana Electric G&T has reached a critical juncture in its ability to demonstrate project viability and secure financing for HGS. On 30 May 2007, the Montana DEQ issued the Air quality permit for HGS. Shortly thereafter the permit was appealed to the Montana BER where the status of the permit remains in limbo awaiting the development of final language that will articulate the findings of the BER as stated orally at its 21 April 2008 meeting. The appeal process before the BER has been frustrating for all involved and it would be premature at this time to comment on an order that is still in draft form. However, setting aside the matter of what the order issued by the BER may state - it does seem appropriate to comment on the process by which the yet to be final order was rendered - not only as it relates to Southern Montana Electric G&T's HGS - but for any entity that may be considering Montana as a place to do business.

Southern Montana Electric G&T recognizes that there are vocal opponents to its project, and although we may not agree with their position, we respect their right to an opinion that differs from ours. However, there should be a time when the review process yields something other than perpetual review. Southern Montana Electric G&T is not questioning the need for review and scrutiny - both are essential elements to the process of assurance. But there is a time when review breaches the limits of due process and the rules start to be made up as you move along - and when that happens there is only one word to describe the process - broken.

The combination of an unreasonably delayed BER proceeding where schedules appear to change with the wind - a proceeding that has already consumed 12 of the 18 months Southern Montana Electric G&T was given to commence construction, together with the MDEQ's position that the clock must keep ticking while our permit languishes before the BER - is inherently unfair. And, if the show were on the other foot I doubt this would be considered a fair proceeding. Particularly since Montana law allows up to three years to commence construction (keep in mind we were given 18 months) and federal law allows an extension of a permit deadline by showing reasonable cause. Yet in our case we were given 18 months to commence construction with no provision to stop the clock during the appeal process, and if our permit expires during the review process - we have been told we get the pleasure to start the entire affair all over again. As the fate of Southern Montana Electric G&T's air quality permit awaits clarity in the hands of the DEQ it is our sincere hope that the message Montana sends to the many entities that have a keen eye focused on this issue is that the regulatory process in Montana is fair, thorough, and thoughtful - and not an endless quagmire that can be manipulated into a system where the rules get made up as you move along.

The great New York Yankee philosopher Yogi Berra once said - "There is only one word to describe a situation like this and that word is - you just never know."

Mr. Chairman, members of the committee, Southern Montana Electric G&T has been both trusting and respectful of the process by which it has sought approval for its project and clearance to put Montana Union Labor to work building a state of the art facility that Montana can be proud of. Our need for reliable, affordable and clean electric energy

increases every day and the time has come to send a clear message to those who want to continue to call this great state we live in home – that Montana has a regulatory process that is fair and with a defined finish line. Furthermore, we should all share the hope that Montana be known as a state that if you play by the rules - labor, industry and the environment can exist in harmony. The energy supply problem facing Montana and the region is very complex, but there is one value that we should all find acceptable - good public policy and regulatory review should have no bias, slant or favorites – and above all the rules should not change in the middle of the game.

Thank you and I will be available to answer questions at the appropriate time.