

NRECA ANNUAL MEETING 2007

Tuesday, March 20, 2007

Remarks of Glenn English

MR. GLENN ENGLISH: Thank you very much. It's certainly a pleasure to be with you again and to attend another annual meeting.

Las Vegas is a wonderful place to have an annual meeting. Everyone always enjoys coming to Las Vegas. And they have wonderful facilities here.

But the work that we have before us is serious work indeed. We have a number of challenges that we must meet. In many ways, we can look at these challenges as being something new and different. But when you examine them closely, they're really the same old challenges that we have faced for decades. It is the duty of every board member, of every managing CEO, every staff member of every electric cooperative all across this country to provide this membership with safe, reliable electric power, and to do that in the most cost-effective way we possibly can.

Basically, it's to keep the lights on and keep the rates down. Our success or failure will be judged by how well we do this job. That has always been the case.

We've been talking now for several months about the major challenge that due to the fact that the surplus generation that was built in the late seventies and early eighties has now been absorbed, not just by electric cooperatives but by the entire electric utility industry. And we're faced with a challenge of building additional generation to meet our members' needs.

As you saw earlier on the graph, we are growing much faster than our counterparts, the investor-owned utilities - which means that we are going to need more power, and likely need it sooner than anyone else in the industry. In fact, it has been estimated that over the next decade, we will need a 50 percent increase in the amount of

electric power over what we have today -- the power that we all know is going to be the most expensive generation built in the history of this country for ourselves and the rest of this industry.

Now, we've been talking about the best way to address this, since one of our challenges is trying to keep the rates down. In this situation, there are so many other factors that are coming to bear, factors that we have no control over -- in fact, factors that are beyond the shores of this nation -- that will determine what our rates are for the future.

We have urged every NRECA member to begin a program of Straight Talk, Straight Talk to the membership, Straight Talk, explaining what is taking place, what to expect, and what we're doing to deal with this challenge, to deal with the certainty that rates are going up. It's just a question of how much.

I know that many of you have been engaged and involved in this kind of discussion with the membership. We have had feedback from you that this has been a very successful program. It is one that is working well. People appreciate honesty and candor. They appreciate knowing in advance what the challenges are, what we're doing about it, and how they too can help.

Well, this morning, I've got my own version of straight talk with you, a little straight talk, candor, and honesty. Let's lay it out there and talk about it. It appears that this nation is reaching a decision on the issue of climate change, an issue that will place even more challenges before electric cooperatives and the electric utility industry. We have taken note of the fact that several States -- California and Minnesota to mention a couple, but others are looking at it -- are passing their own legislation to deal with climate change within their states. And now the Congress is indicating that they may not be far beyond.

There is a bipartisan coalition that has been forming within the Congress -- and you can see it with the pieces of legislation that have been introduced both last year and this year -- a growing number of pieces of legislation that address the issue of climate change, in which you have both Republicans and Democrats joining together. And I don't need to tell you, given the partisan rancor that we have seen over the past number of years, that this is an unusual event, an issue that is bringing Republicans and Democrats together.

The presidential candidates, the major candidates, are already on the campaign trail, running for President in 2008. Virtually every one of them has taken one position or another in support of doing something about climate change.

Now, there is no question, for some in the political body, this is a political position -- a political position. But for many of our elected officials, this is increasingly becoming a personal issue, something that they are deeply committed to.

Senator John McCain probably said it best a few months ago when he made the comment that the debate in Congress over climate change is over. Now the question is: What are we going to do about it?

What will Congress do? And how are we going to hold down the rates? How are we going to meet the challenges that this Congress will lay before us, in meeting our responsibilities and obligations to the membership to keep the lights on and keep the rates down?

Well, one thing that we have learned over the years that is extremely important is that we've got to be at the table. We've got to be at the table. In fact, if you're not at the table, most likely you're going to be on the menu. And I can assure you, this is one issue where we do not want to be on the menu.

The, Resolutions Committee, is bringing before you tomorrow in the business session a new resolution which is aimed at instructing me and the NRECA staff to make sure that we are at the table, that we are participating in this debate, that we are there to shape and guide as best we can a policy that will enable you to keep the lights on and to hold down the rates as much as possible.

This is a huge issue as far as electric utilities are concerned. According to all statistics that have been published, the electric utility industry is responsible for roughly one-third of all the carbon emissions in this country today. The automobile industry is responsible for roughly an equal amount.

But by the same token, we all recognize and understand, particularly those of us with the electric cooperatives that coal gives us the best opportunity to hold down rates. Coal is the most plentiful resource that we have available to us. And electric cooperatives, percentage-wise, have a much larger amount of coal-fired generation than do the investor-owned utilities -- roughly 80 percent for electric cooperatives and some 50 percent for the rest of the industry. So it is particularly an issue with us as to how we keep the lights on and the rates down, given the need for coal-fired generation for the future.

To further complicate this issue, what we're faced with is a gap. Now you all have heard in the past about missile gaps and credibility gaps. What we have before us today is a reality gap, a reality gap. In this country today, there exists a reality gap with regard to this issue. Much of the public and the Congress believe that there can be a silver bullet that will suddenly take care of this issue. They believe that only one answer is needed.

Much of the time we hear talk about renewables as being that answer. All we need to do is to switch to wind power or solar power or some other renewable in source

order to meet the needs of generation for the future. We don't need to build another coal-fired plant. I've heard many members of Congress say this. Some have said it to me. They believe that this can be a quick fix. And they also believe, given the fact that sunlight doesn't cost anything, wind doesn't cost anything, that this could be a very cheap solution. Many believe that rates may even go down.

We all know that that is not correct. It would be great if it were. It would make our job a whole lot easier if that were the case. But that is not reality. That is not reality. If in fact we are going to reduce carbon emissions in this country in the electric utility industry, there are going to be many solutions, not a single solution. They are going to be difficult solutions and take time to implement. And in fact, in many cases, the technology does not exist today for us to do what many would ask us to do. In addition to that, this will be a very expensive proposition.

That's the reason this reality gap is so important. That is the reason we must address it in a straightforward manner, with candor and honesty. We have to educate certainly our membership, members of Congress, and hopefully the rest of the country.

The best solution, as is nearly always the case, is a realistic, honest solution. And the best example I've seen of that recently has been one that has been put forward by the Electric Power Research Institute, better known as EPRI. That's the research institute for the industry. It has been looking at this issue. We asked them to come over to NRECA last month and tell us where are we in the state of the art of technology. What can we do now and what they think we can do 10 years from now or 20 years from now.

EPRI has presented a plan to address okay, how does the electric utility industry actually reduce carbon emissions and still keep the lights on? The same challenge that we have been looking at.

What EPRI laid out to us is a suggested plan that has seven different responses. It is a seven-point plan that would be implemented over the next 25 years. It also recognizes most of the gains are going to come between 2020 and 2030.

The EPRI plan, here are the points, for the electric utility industry:

One, we need to continue to improve energy efficiency. We need to continue to incorporate more renewables. We need to expand our nuclear program and build more nuclear plants. We need additional coal-fired generation, with the latest technology and the most efficient that can be built into the system. And in the future we need carbon capture and storage to help reduce the emissions of coal-fired generation in this country. We need plug-in hybrid cars. And we need distributed generation.

Now, according to the EPRI plan, each of these items makes a contribution, shaves down what the carbon emissions would otherwise be as we move forward to 2030. In fact, it goes so far as to say, if we do all this right, if the technology is available in a timely manner, we can actually reduce those carbon emissions down to the levels of some of the most ambitious pieces of legislation that were recently introduced in the Congress. But that would be in a perfect world – a perfect world.

What may surprise many, dismay many, is the fact that what the EPRI study lays out is, by the year 2030, given the tremendous increase in energy demand that we will see take place in this country, that with that great increase in demand and even if we implement all of these proposals, in 2030, we will actually have a larger percentage of coal-

fired electric than we do today. We will have more coal-fired generation in the year 2030 than we have today.

Now, that's certainly compounds, and I'm sure will dismay, the entire United States Congress to recognize and understand we're going to have to have more coal-fired generation in the future, not less.

While the EPRI model is based on a perfect world, it is a good road map, a road map that is realistic, a road map that makes sense, a road map that can be backed up. But what I found particularly interesting about the EPRI model, and the reason that I think it's a particularly good road map for this industry to look at, is the fact that as you go down through that list, electric cooperatives, to one degree or another, are doing virtually every one of those items. We're already moving in that direction.

If you look at the issue of efficiency, the Federal Energy Regulatory Commission, a few weeks ago, came out and made the point that electric cooperatives, through demand-side management, and automatic meter reading, we are twice as efficient in those areas than are the investor-owned utilities. Also, a lot of our members today that are working with their membership by trying to incorporate more efficiency in the use of electric power.

I know some are giving away free compact fluorescent bulbs. Others are working with the membership with energy audits. They are trying to make the system more efficient. And certainly this membership has been urging the United States government for years now to make the investment in hydro, to increase the maintenance and improve the efficiency of government dams and generators, so that more power can be generated from this renewable resource. And certainly the EPRI model makes the point about how right we

have been and how important it will be for us to increase the efficiency of those government facilities in the future.

And speaking of renewables, our members are already engaged and involved in renewables. We're engaged and involved in renewables where it is cost effective and where it makes sense for our membership. As you all know, the Ag Energy Working Group, better known as 25-by-25, just recently published the implementation plan they have been working on for a year. As you know, NRECA had a major influence on to the electric utility segment. And I think that segment makes a lot of sense.

What the 25-by-25 implementation plan recommends to government is to focus on incentives, not mandates -- on incentives. What the 25-by-25 plan recommends is that it be recognized that renewables must complement traditional energy sources such as coal. What the 25-by-25 working group plan recommends is that if you truly want to produce more electric power using renewables in this country that you have to provide the incentives.

And if you truly want to maximize the use of renewables, then that renewable power must be produced in the areas where it is the most feasible. That means wind in the Great Plains. In addition, the 25-by-25 plan says you must build more transmission. You must build transmission to make it possible to move that renewable power out of those regions where it can be produced, and move it into those regions that may not be able to produce renewable power. This has the potential of great economic development for many of our members. After all, electric cooperatives cover some three-quarters of the land mass of the United States, the land mass that will have to produce renewable energy, renewable power.

Recently, at NRECA, we produced for you and for use with elected officials, the results of a survey of all the membership as to what everyone is doing to renewables. We brought it all together. If you haven't seen it, we have some copies available. You may want to take a look at it. And we produced this to just make the point that electric cooperatives are doing a lot with regard to renewables. Electric cooperative generation is already 11 percent renewable.

And we need to be recognized and understood from the standpoint that we will use renewables where they make sense as far as our members are concerned. And if the Congress wants us to do more, the Congress has to be willing to provide those incentives to make sure that we don't have to raise rates to incorporate renewables into our plan. That's the reality.

In addition to that, we also have surveyed the membership with regard to efficiency. And we will produce a similar booklet that will be available for the Legislative Conference in May, showing what electric cooperatives all across this country are doing with regard to efficiency, and the contribution that we are making.

As far as nuclear is concerned, electric cooperatives are actively engaged with our colleagues in the investor-owned utilities in building nuclear. And this is particularly true in the Southeast. Once again, we are delighted to participate, to encourage the simplifying the difficult licensing process and the time-consuming effort it takes for government to make it possible for us to build those nuclear plants. And we need those nuclear plants in order to help solve this problem.

And let me just say as far as coal-fired generation is concerned, our members have a lot of coal-fired generation plants. As I mentioned, we must invest \$35 billion in new

generation, a 50 percent increase. Much of it will be coal-fired. Every one of those plans will incorporate the latest technology and the latest efficiencies. And through those efficiencies, it means that there will be fewer carbon emissions than there would be with older plants. We are leading the way in incorporating efficiency into our coal-fired generation.

Now, with regard to carbon capture and storage, the Department of Energy has been handed the responsibility of coming up with the research and the development to make it carbon capture and storage possible for our generating facilities. But the Congress has not been doing its part. The Congress has not been funding these research projects for the Department of Energy.

And in fact, if we are going to meet the objectives as outlined by the EPRI plan, if we are going to be able to meet those very ambitious objectives as laid out by EPRI on carbon capture and storage between 2020 and 2030, it will require the Congress today to commit billions of dollars each and every year to complete that research and get it delivered on time. That is Congress' responsibility, not ours. Not ours.

Many feel that plug-in hybrid cars are the solution to reducing carbon emissions from automobiles to help move us in the right direction. Plug-ins are something that the Cooperative Research Network is engaged in. In fact, there is a demonstration effort underway with Jackson EMC today on plug-ins. Certainly it makes sense to utilize the electric power that can be generated by this increased capacity, as well as the capacity we have today, in an off-peak manner, in dealing with plug-ins.

And Former CIA Director Jim Woolsey is going to talk to you a little bit about plug-ins when he speaks to you a little later.

But electric cooperatives are doing their part. We will be ready to deliver the electric power to meet the needs of plug-ins for our members, so that we can also help reduce carbon emissions in the automobile sector.

As far as distributed generation is concerned, we already have electric co-ops that are engaged and involved in distributed generation. I know in particular Basin has recently come up with a new contract to make it easier to work with their membership as far as distributed generation is concerned. And East River has been very active in this area as well.

The bottom line here is this: Electric cooperatives today are moving in the right direction. Electric cooperatives today are positioned to keep the lights on in the future. And we can assure our members we can accomplish that job.

The challenge for all of us, the difficult challenge, is going to be holding down rates. Holding down rates.

Success in this area may be redefined in the future, as additional costs pile on -- the price of concrete and steel is going up and we are competing with China and India for these materials. As well as with China all the way to new regulations to deal with carbon capture.

Rates are going up. That's the Straight Talk we've been giving to members. That is what you have been telling your members -- the rates may go. If in fact we are going to deal with the issues of climate change and reducing carbon, the rates are going up even more than what we told our members.

The focus today and in the future may shift from the sale of kilowatt hours. And all of us may be judged on how successful we are in being able to power more with less electricity.

How can we help our members do better, make wiser choices, in the uses of electric power that we have available? That's going to be the challenge. But it's really not any different from what we have done throughout the history of this program. I can assure you of one thing. As we work with the Congress, as we pull up our chair at that table, we will have one thing in mind as far as the staff of NRECA is concerned on climate change. And that is, how can we minimize the impact from an electric-bill-standpoint to our membership? How can we get this job done and at the same time help our members with this issue?

We can take comfort in the fact that electric cooperatives are on the right track. We can take comfort in the fact that we have a road map here that is realistic, one that makes sense. And certainly we must recognize that we must take that road map and use our knowledge to eliminate the gap, the reality gap, especially if we try to keep rates down. We must in fact change the perception of the Congress.

If you're going to keep the lights on, you're going to have to have more coal-fired generation. It's not just me or the electric utility industry saying that. Last week, MIT released a study, which underscored that very fact. MIT said exactly the same thing: If you're going to keep the lights on in the future, you've got to have more coal-fired generation. That is a fact. There's no way you can get away from that.

In this case, it's not just a question of cost. What we are talking about here is providing the electric power, so that when you flip that light switch, the lights come on.

You've got to have coal-fired generation. It's too much of a major part of the generating capacity of this country.

So we have the reality of coal-fired generation well into the future, while at the same time dealing with the question of climate change. So what we need you to do is to have a little Straight Talk with your members of Congress, a little Straight Talk. What we need you to do is to help us close this gap. What we need you to do is to deal with the question of perception, and make that perception a lot closer to the reality that we all know exists.

The reality today that we must get across to Congress is that the technology has not yet developed for carbon capture and storage. It is going to be very expensive for us to deal with the issues of carbon and carbon reduction. no free lunch. Rates will increase as a result of that. And members of Congress must understand it is their action that will determine what those rates will be, how much those electric bills will increase.

And Congress must also understand that if this government can't convince China and India and many other countries that are rapidly adding additional coal-fired generation with absolutely no emissions restrictions, if they can't convince them to join in this effort, whatever we do, all the money that we will be required to spend, we will not be able to reduce carbon emissions in this world. This is something the United States cannot do alone.

In fact, all of that effort would be for naught if China and India don't participate. As we have pointed out in the past, China today is adding a new coal-fired generating plant a week. There is no way the United States can offset carbon to balance that out. That is a fact.

Congress, left to its own devices, is picking up these little snippets of information, they are hearing some simplistic tale by someone who read something someplace that somehow this is going to be an easy, quick fix. All you need to do is lean on wind or lean on solar or lean on some other renewable, or we can increase our efficiency to the extent that we never have to build another power plant. That is just flat wrong. But if you leave Congress to its own devices, that's what they'll believe. They will legislate with that in mind.

Now I want to give you a little example of this. I am going to quote former Senator J. William Fulbright. There is a lot of truth in this. It rings true to me. When you're talking about the Congress, 435 people in the House of Representatives and 100 senators, he says: Congress has the power to do any damn fool thing we want to do. And we seem to do it about every 10 minutes.

Now that's what you're dealing with, folks. That's the reality of the situation, and we have to face it. And it is for that reason that I want to ask each and every one of you, everyone in this hall today, and the folks that are back home -- directors and -- staff folks that have expertise in this area, it is going to be critical that you come to this year's legislative conference in the first part of May. The job that we have before us is to make sure that this Congress does not do a fool thing dealing with this issue. It's too important. It's too important to this industry and it's too important to this country.

We need you to sit down with your representatives, not to lobby them but to educate them. We need to close the reality gap. We need you to explain the EPRI road map and all the steps that must be taken if they want to reduce carbon in this country, and how critical it will be to get other countries to join in as well. We need you to explain the MIT

study, which lays it out very clearly. You cannot ignore the fact that you're going to have to build more coal-fired generation in this nation.

You need to go to the Congress and point out that electric cooperatives across this country are doing their part and are on the right track. And we need the United States Congress to do its part, to be realistic, to be honest, and make the investments in technology so that we can incorporate carbon capture and storage.

We need them to make the investments so we will have the incentives to be able to go out and to incorporate more renewables. And we need them to make it possible for us to get siting so we can build transmission to do this job and maximize the benefits that we can provide to this nation.

Be sure you come to Washington in May. Thank you very much.