FILED WITH
Executive Secretary
October 19, 2009
IOWA UTILITIES BOARD

STATE OF IOWA

DEPARTMENT OF COMMERCE

UTILITIES BOARD

IN RE: THE AMERICAN CLEAN ENERGY AND SECURITY ACT OF 2009	DOCKET NO. NOI-09-2

REPLY COMMENTS OF BLACK HILLS ENERGY

On July 16, 2009, the Iowa Utilities Board ("Board") issued an order initiating this inquiry to gather more information from a broad cross-section of Iowa stakeholders on how the provisions of the American Clean Energy and Security Act of 2009 (H.R. 2454, the Waxman-Markey bill) could affect Iowa. On July 30, the Consumer Advocate Division of the Department of Justice filed a motion to extend the inquiry schedule. On July 31, the Board issued an order amending the inquiry schedule, with initial comments due on or before August 27, 2009. Black Hills/Iowa Gas Utility, LLC d/b/a Black Hills Energy ("Black Hills") submitted initial comments and participated in the Board hearing on September 19, 2009. Black Hills submits the following general reply comments:

As noted in Black Hills' initial comments, the proposed legislation would result in significant cost increases for Black Hills' natural gas customers. Under the current provisions, climate change legislation on natural gas would go into effect in 2016. This federal "CO_2 tax" would result in an increase in bills for all natural gas customers: residential, commercial and industrial. Black Hills projected the natural gas cost increases from CO_2 costs associated with the proposed climate change legislation for an average customer of Black Hills'. By 2016, a

$0.06 per Therm cost increase, or 8 percent increase in the billing rate, is expected. This represents a $44 annual increase in average residential bills and a $186 annual increase in average commercial bills. By 2030, a $0.27 per Therm cost increase, or 33 percent increase in the billing rate, is expected. This represents a $191 annual increase in average residential bills and a $798 annual increase in average commercial bills. This projection assumed a cost of $50 per emission credit per metric ton of CO_2 emitted a $0.80 per Therm current billing rate, residential usage of 720 Therms annual usage, and commercial usage of 3000 Therms. The projection did not factor in natural gas volatility, increased demand due to the lower CO_2 emission rate of natural gas, supply constraints or inflation.

In addition to the projected direct cost increase for customers, several indirect cost increases will be borne by customers as a result of the legislation. Second to coal, the most rational energy choice to produce electricity is natural gas. Switching to natural gas-fired electric generation will increase the demand for natural gas. The laws of supply and demand suggest when demand for natural gas increases, the cost of the commodity will increase, and the cost increase will be borne by Black Hills' customers.

Black Hills believes there are several problems with the climate change legislation as currently proposed. First, the economic impacts for compliance with the climate change legislation would be significant, especially in the central U.S. and during a recession. Second, the proposed CO_2 reductions are too aggressive to be practical or attainable with the current available technology. There is no technology available today that can readily replace coal and natural gas generation and be deployed commercially in less than 10 to 20 years. Third, the allowance allocation formula is unfair to coal-reliant states. The CO_2 allowances for local electric distribution companies are based 50% on electricity sales and 50% on emissions, shorting natural gas customers by more than half. The allowances need to be based mainly on reduced emissions, not sales. Fourth, the legislation results in a massive redistribution of wealth. Utilities that are less reliant on coal than Midwestern utilities will experience windfall profits as high as $1 billion per year. The legislation will cause a transfer of wealth from the central U.S. to both coasts, and will result in relocation of jobs from the U.S. to countries that don't limit their greenhouse gases. Fifth, the legislation creates new multi-trillion-dollar commodities market subject to speculation. A maximum and minimum cost range for emissions credits should be established to avoid market speculation and protect customers. Markets should be restricted to those who need allowances. Sixth, a federal greenhouse gas emissions reduction program will only be effective as part of international effort that includes all major emitting sectors in both developed and developing countries. To do otherwise, would result in exporting jobs and emissions.

Black Hills believes several changes should be made to the legislation. If Congress proceeds on climate change legislation, such legislation should include:

- Provide free emissions credits (also known as allowances) to local electric distribution companies based on 100% emissions, rather than 50% on sales and 50% on emissions, to provide cost relief to customers. The cap on emissions should be implemented more gradually in early years.
- Create an allocation pool that matches 100% of actual emissions from the year that is chosen to start the program. Current versions would provide fewer allocations than what utilities and other businesses would need.
- Include all power plants under construction and those placed in service after 2005. Coal plants built after 2005 that contain the latest technology are the "cleanest in

the nation" for NOx, SO_2 and mercury emissions, and should be granted allowances for CO_2. Additionally, if commercial technology becomes available, newer plants could be easiest to convert to capture CO_2 emissions.

- Adopt a maximum price (price ceiling) to reduce market volatility in credit trading.
- Provide funding and allow time for CO_2 capture and sequestration technology to be commercially available.
- Make emissions credits available to those who need them for compliance, and prevent windfall profits for companies that do not need emissions credits or for commodities traders.
- Require other nations to reduce their CO2 emissions. Legislation should include "off ramps" if other countries fail to participate.
- Instead of requiring natural gas utilities to spend one-third of the value of their emission allowances on energy efficiency, all allowances that are allocated to natural gas local distribution companies should be used for customer benefit.

Dated October 19, 2009

Respectfully submitted,

BLACK HILLS/IOWA GAS UTILITY, LLC d/b/a
BLACK HILLS ENERGY

By: /s/ *Patrick J. Joyce*