

Testimony of David L. Goodin  
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Good afternoon and thank you for the opportunity to participate on this panel today. I am Dave Goodin, president and CEO of MDU Resources Group, which I'm proud to note is the largest publicly traded company headquartered in North Dakota as well as the four-state region of North and South Dakota, Montana and Wyoming.

A strong energy infrastructure is the lifeblood of America's economy. It is the coal, oil, natural gas and electricity that power business, industry and our daily lives. The pipes and wires are the arteries that connect our homes, factories, offices and stores to bring them to life. It is the transportation network of roads, highways and airports that keeps our economy moving.

At MDU Resources Group, infrastructure is our business. Operating in 44 states, we provide value-added natural resources products and services that are essential to energy and transportation infrastructure. Our businesses include regulated electric and natural gas utilities, pipelines and other midstream businesses, exploration and production of both oil and natural gas, and construction materials and services.

The diversity of both our businesses and our geographic operations provides us with what I believe is a unique perspective on the infrastructure needs and challenges facing our nation. Those challenges are many, and I'd like to touch on just a few of them.

First and foremost among those challenges is the perception that America lacks a cohesive energy policy. Quite frankly, recent national energy policy decisions are being driven more by environmental concerns, rather than focusing on the needs of the U.S. economy. Certainly we all appreciate the need for a clean environment, but it's absolutely vital that our energy supply, America's lifeblood, remains reliable and affordable. The best way to achieve that, we believe, is by maintaining a diverse mix of energy sources – a truly all-of-the above energy policy.

Here in North Dakota, the coal industry is hugely important to the state and regional economy, but many in the coal business are concerned that recent regulations proposed by the U.S. Environmental Protection Agency threaten the future viability of coal as an energy source. The EPA's rules for new coal plants would require that roughly half of a plant's carbon dioxide emissions be captured and stored. However, recent testimony on behalf of the Department of Energy's Clean Coal Research Program indicates that carbon capture and storage (CCS) remains in the developmental phase <sup>1</sup>. Several pilot projects are under construction, but have not yet been demonstrated at commercial scale. Nor does the industry have a good handle on the long-term viability of CO<sub>2</sub> storage. And if and when commercial scale CCS plants are constructed, DOE has estimated the technology will increase the price of coal-fired electricity 70-to-80 percent. The net effect of the EPA rules is that they take coal off the table for future electric generation.

Likewise, those of us in the electric sector are concerned about the greenhouse gas regulations EPA has proposed for existing sources of fossil fuel generation. It is apparent that in drafting the rules, EPA did not take advantage of the expertise at the Department of Energy or the FERC, both of which have a deeper understanding of how energy is produced, distributed and consumed

in this country. The draft rules, which seem to presume that electricity generated inside a state's borders is also consumed in that state, largely ignore the reality of existing electric markets and the manner in which power is produced and distributed. It's difficult for our engineers to imagine a scenario in which the rules could be implemented in some states served by our utility business. I could elaborate further on the complexity of what's been proposed, but suffice to say it has created internal chaos in the industry. For purposes of this forum, the proposed EPA rules demonstrate the need for more coordination and better information sharing among agencies of the federal government.

This de facto ban on new coal-fired power plants presents another challenge, and that's the potential for over-reliance on natural gas as a source of electrical generation. Natural gas is relatively inexpensive today, but over-reliance down the road could produce price spikes that will mean higher and more unpredictable electricity bills. We saw a glimpse of that possible future this past winter with the phenomenon known as the polar vortex. A massive cold wave caused a surge in natural gas demand. The absence of adequate natural gas supply and the infrastructure to deliver it forced some gas-fired generation off-line, and produced huge price spikes.

A recent study by the information firm IHS envisioned a future scenario in which the United has grown to depend on natural gas for 62 percent of its electrical generation<sup>2</sup>. IHS found that the cost of generating electricity in the reduced diversity case was more than \$93 billion higher per year and the potential variability of monthly power bills was 50 percent higher compared to its base case, which contained a balanced mix of generation sources. The study found that the lack

of diversity would cost the typical household around \$2,100 annually, a price that none of our low-income citizens and few senior citizens could afford.

MDU Resources is sensitive to this new energy reality, and as a diversified supplier, we are well positioned to help the country adapt to a greater dependence on natural gas for its energy needs. We are currently developing a large interstate pipeline project that would transport some of the growing supply of natural gas from the Bakken fields of North Dakota to markets in the Midwest. The Dakota Pipeline, as we call it, would help get to market the increasing amount of natural gas being produced in western North Dakota, and would complement the state and industry's coordinated effort to reduce the amount of natural gas that is now being flared. As more of that gas is captured and as production continues to increase, new natural gas pipeline infrastructure will be necessary to deliver this commodity to U.S. consumers.

We are also making a concerted effort to find ways to use more natural gas here in North Dakota. Our electric subsidiary, Montana-Dakota Utilities Co., just this week announced that construction of its 88-megawatt simple cycle gas combustion turbine is complete and the electric generating unit is ready to provide power to our customers. The new facility, known as Heskett III, is needed to meet the demand requirements of Montana-Dakota's electric customers, which have grown considerably in the wake of the current oil boom. Unlike most regions of the country where electric demand has stagnated, our electric system planners currently forecast demand for power will increase more than 15 percent in just the next five years, and roughly 40 percent in the next 20 years.

It's worth noting that the Heskett III plant necessitated the construction of a new 24-mile natural gas pipeline to serve the generation station, as well as additional electric transmission interconnection facilities. Existing pipeline and transmission infrastructure was not adequate to supply the plant with natural gas and deliver its power to customers. That scenario – the need for expanded infrastructure – is likely to play out again and again throughout the country as more coal plants are forced to retire, and more gas turbines, pipelines and associated infrastructure are built to replace them. This in turn is likely to raise the price of electricity for American consumers and businesses, and prices will go even higher when the United States returns to a more sustained pattern of economic growth.

Natural gas transportation infrastructure is crucial to sustaining the American economy. But so, too, is surface transportation infrastructure, and we see that firsthand in the Bakken. The oil boom brought with it a tremendous increase in the volume of truck traffic, and our state has responded by rebuilding or widening many of the roads in western North Dakota. We've been fortunate in the fact that oil and gas tax revenue has provided the financial means to beef up our transportation infrastructure, but it also calls attention to the need for more predictable federal transportation funding.

Congress, just before its August recess, once again put another Band-Aid fix on the Highway Trust Fund (HTF). The House and Senate passed legislation that cobbles together enough money to patch up the shortfall in the HTF and extend its expenditure authority another eight months through May 2015. But just like energy supply planning requires some element of certainty, so too do transportation planners need predictability to function effectively.

U.S. surface transportation funding needs are well documented. We have congested urban highways, substandard bridges and crumbling roads, all of which are a negative drag on American productivity. The federal motor fuel taxes we all pay to fund the Highway Trust Fund haven't been raised in 20 years, and are insufficient to meet our country's infrastructure needs. And simply raising the fee isn't a complete solution, because vehicles are becoming more efficient, and the future will bring a larger number of alternate fuel vehicles.

We would encourage the Department of Transportation to take a leadership role in developing a funding solution, because political sensitivities clearly have prevented action in the Congress. And as you consider options, we would suggest that you look at what has worked in North Dakota – dedicating a portion of the taxes and royalties from oil and gas production on public land to fund transportation needs.

In conclusion, I would like to suggest that the federal government and its transportation and energy planners take a close look at the way we do things in North Dakota. And I'd like to use one of our company's latest projects as an example. In partnership with Calumet Specialty Products Partners, L.P., we are building a diesel topping plant near Dickinson, N.D. It's the first greenfield refinery built in the United States since 1976. When completed late this year, it will provide roughly 8,000 barrels of diesel fuel per day to help meet the growing demand for diesel in North Dakota. There are about 500 construction workers on site right now, and long-term it will provide about 90 permanent jobs.

When we conceived this project, there were skeptics in both our companies who thought it couldn't be done, that the logistics and government permitting obstacles were too great. But what we found in North Dakota's state government is an attitude that it is possible to create a business-friendly environment while satisfying all siting and environmental requirements, without cutting corners.

The regulators in North Dakota are strict but fair. I believe they understand and appreciate the fact that we share the same goals – to develop our state's resources and create opportunity, while protecting the environment. Working in cooperation with various state agencies, in just a matter of months we had secured our financing, completed the environmental permitting process, and we were breaking ground on the plant. The success of this project demonstrates that by working together, we can cut through the red tape, satisfy all the permitting requirements, create jobs, grow our economy and, maybe most importantly, leave behind a prosperous future for our children and grandchildren.

<sup>1</sup> Testimony of Dr. S. Julio Friedmann, Deputy Assistant Secretary for Clean Coal, U.S. Department of Energy, Before the Committee on Energy and Commerce, Subcommittee on Oversight and Investigations, U.S. House of Representatives, February 11, 2014

<sup>2</sup> The Value of US Power Diversity, <http://www.ihs.com/info/0714/power-diversity-special-report.aspx>