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## OTTER TAIL POWER COMPANY REQUESTING BIG STONE II COST RECOVERY

Otter Tail Power Company is requesting recovery of development costs for the now abandoned Big Stone II generation project. The company incurred about \$12.5 million in engineering, legal, environmental, communication, land-acquisition, and financing costs. "We believe the costs were prudently incurred as we planned to serve the future needs of our customers," said Tom Brause, Otter Tail Power Company's vice president of administration, who oversees the company's regulatory processes.

### Multiple factors caused Otter Tail to withdraw

Brause said that while regulatory authorities deemed this coal-fired power plant both necessary and prudent, the broad economic downturn, federal regulatory uncertainty, challenging credit and equity markets, fundamental shifts in the energy marketplace, protracted and uncertain permit appellate processes, and difficulty in securing additional partners were among the issues that caused the company to withdraw when contractual obligations called for a financially binding commitment. "We had to make an extraordinarily difficult choice," he said. "It was not the time to commit to a capital expenditure on a generation resource with a cost approaching our company's entire rate base."

### Otter Tail seeks recovery in three states

Here's how the company's request for cost recovery breaks out in the three states it serves.

- **Minnesota:** As part of a general rate case filed April 2010, Otter Tail has asked to recover Big Stone II costs over a five-year period. The request results in an annual expense of \$1.5 million, which means about \$1.00 a month on an average residential customer's bill.
- **South Dakota:** Otter Tail will ask for similar recovery terms as filed for in Minnesota when it files a general rate case in South Dakota, likely by July 1.
- **North Dakota:** Otter Tail Power Company agreed to a settlement with the Public Service Commission advocacy staff and the Large Industrial Energy Group, which includes eight of the utility's largest customers. The settlement was awaiting action by the North Dakota Public Service Commission at the time this newsletter went to press. If approved, the utility would recover North Dakota's \$4 million share of Big Stone II generation-related costs over 36 months, beginning yet this summer. (Transmission-related costs will be handled in a different manner.) It would mean \$0.62 a month, or \$7.44 a year, for three years to an average residential customer using 750 kilowatt-hours a month. The agreement achieves full recovery but with no accrual of interest or capital costs during the cost recovery period.

"Our electric rates are based on the costs associated with providing service to our customers, and that means the costs we incur to pursue sensible and necessary infrastructure will be shared among customers—even in this relatively rare instance when the infrastructure is not built," said Brause. "North Dakota customers involved in the settlement agreement understand this."

### What about the future?

Additional generation to serve future demand continues to be needed, although market conditions and the availability of surplus energy on the market have provided a reprieve. According to Brause, power purchase agreements and wind energy developed during the last two years has helped to fill the company's short-term needs. "As for the long-term," he said, "we continue to evaluate other options and will file our next resource plan with state commissions by July 1."

# GREETINGS FROM BISMARCK...

**Activity in Washington** is heating up as the Congress moves to tackle controversial issues as far ahead of the election as possible. Climate change/global warming issues are on the plate as well as a number of regulatory actions. Following last year's Supreme Court ruling that the Environmental Protection Agency has the authority to regulate carbon dioxide as a pollutant under the Clean Air Act, there have been at least two attempts to thwart EPA. Congressman Pomeroy signed on an effort in the House and as this issue of *Shareholder News* goes to press, the Senate is expected to vote on a similar measure, known as the Murkowski Amendment.



**Bob Graveline**  
President

Although it has been rather quiet of late, the George W. Bush tax cuts are set to expire at the end of 2010 unless the Congress takes a positive action to extend them. Included in the Bush tax cuts, along with income tax reductions, is a reduction in the estate taxes as well as a reduction in the rate of taxation on dividend income. Currently, dividends are taxed at 15%, and there is no estate tax during 2010. Prior to the Bush tax cuts, dividends were taxed as high as 37 percent.

President Obama has stated his plan is to peg dividend taxes at 20% for incomes of \$250,000 or less as well as implement an estate tax, but nothing firm is on the table as this issue of *Shareholder News* goes to print.

**There has been a great deal of action** on carbon/carbon dioxide/global warming/climate change recently, and it is anyone's guess where these debates will lead. The Waxman-Markey bill that passed in the House earlier, and the Kerry-Lieberman bill that was introduced on May 14, have similar CO<sub>2</sub> reduction goals imposing an 80% carbon reduction by 2050.

According to a recent *Wall Street Journal* editorial, "the last time U.S. emissions were that low, William Howard Taft was President. On a per capita basis, the U.S. population of 420 million projected for the year 2050 would be held to the same overall emissions as the 40 million Americans in 1875."

**This is scary!** Listening to a recent business newscast on television, viewers were told that 15 years ago, the six largest U.S. banks contributed 17% of the nation's total gross domestic product (GDP). Today, the six largest U.S. banks control 63% of the GDP.

The announcer/editorialist went on to say that commercial banks and investment banks need to be separate, like they used to be.

**National columnist Peggy Noonan** recently wrote, "We are at a remarkable moment. We have an open, 2,000 mile border to our south, and the entity with the power

to enforce the law and impose safety and order will not do it. Wall Street collapsed, taking Main Street's money with it, and the government can't really figure out what to do about it because the government itself was deeply implicated in the crash, and both political parties are full of people whose political careers have been made possible by Wall Street contributions."

"Meanwhile, they pass huge laws, bills so comprehensive, omnibus and transformative that no one—literally no one—knows how exactly they will be executed or interpreted. Citizens search for new laws online, pore over them at night, and come away knowing no more than they did before they typed 'dot-gov'."

"It is not that no one's in control. Washington is full of people who insist they're in control and who go to great lengths to display their power. It's that no one takes responsibility and authority. Washington daily delivers to the people two stark and utterly conflicting messages: 'We control everything' and 'You're on your own'."

**There is something wrong** when nearly one-half of Americans pay no federal income taxes. According to the Tax Policy Center of Washington, D.C., about 47% of Americans paid no income taxes on their 2009 earnings. Those people avoided income taxes because their incomes were too low, or they qualified for enough deductions, credits and exemptions to eliminate their tax liability.

For 2007, about 38 percent of households paid no federal income taxes, and 49 percent paid no federal income taxes on 2008 earnings. In recent years, credits for low and middle income families have grown to the point where a family of four with two children under 17 years of age will not owe any federal income taxes on incomes to \$50,000.

**Primary elections were** just around the corner as this issue went to press, and I hope your favorite candidates were winners. But now is the time to really get involved with the election process. As you are aware, the decennial census is now underway, and the results of that task will be used as a guide for our 2011 Legislative Assembly to complete the task of re-apportionment – how many people will be in a legislative district, and where will those legislative districts be located?

We encourage you to get involved with the candidates of your choice, volunteer your time to help campaigns, and open your checkbook to help candidates meet the challenge of financing a modern campaign. Remember, the government we get is the government we deserve.

And most importantly, vote for the candidates that best support your beliefs and political positions. It is the majority party in place in the 2011 North Dakota Legislative Assembly that will make the re-districting decisions. Make certain your voice is heard.

All for now...

A handwritten signature in black ink that reads "Bob".

# WHAT DOES 'CAP AND TRADE' MEAN

Cap and trade is a term used for a plan to reduce carbon dioxide emissions in the United States. In its simplest form, the U.S. Government will place a “cap” on carbon dioxide emissions from any type of plant or industry that emits carbon dioxide. The “cap” would decline over time. Most generally, the targets of these efforts are large industrial plants such as coal fired electricity generating stations and other plants that consume large amounts of coal or natural gas.

Companies that emit more carbon dioxide than allowed by the legislatively imposed declining “cap”, would be forced to reduce their carbon emissions either by improving their plant, closing the plant, or by purchasing carbon allowances from a plant that emitted less carbon than was permitted under the “cap”. As market forces came to bear, the value and price of these allowances would increase so, that at some time, plant owners would decide to either

improve or abandon the plant rather than pay high prices for carbon allowances.

However, under plans being discussed in Washington, allowances would be controlled by the government and could be used to finance social welfare causes. For example, the government could grant allowances to non-industrial community groups. Those recipient groups would then sell those granted carbon allowances to industrial carbon dioxide emitters and use any revenues gained from the sale to support its agenda and activities.

As conceived, the purpose of cap and trade was to reduce the amount of carbon dioxide emitted into the air. However, depending on how the government would control allowances, it could evolve into a support mechanism for various social welfare causes.

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## CAP AND TRADE - WHAT'S NEW IN WASHINGTON

On June 26, 2009, the U.S. House of Representatives passed a 1,427-page bill dealing with climate change, known as the Waxman-Markey bill, and often referred to as a “cap and trade” or “cap and tax” bill. North Dakota, being an energy producing state, and a state with high energy consumption because of climate extremes and long travel distances, would be hard hit if this legislation became law.

In an educational effort, the Washington based Heritage Foundation published reports on impacts the bill would have on the various states. According to the report, North Dakota would experience the following over the 2012-2035 timeframe if Waxman-Markey becomes law:

- Lower gross state product by \$634 million
- Reduce personal income by \$245 million
- Destroy 2,361 jobs
- Raise electricity prices by \$1,272.10 per household
- Raise gasoline prices by \$1.42 per gallon.

It had been widely announced that the U.S. Senate would introduce its version of cap and trade/carbon control/climate change legislation on April 26, sponsored by Senators Kerry, Lieberman, and Graham.

However, Sen. Graham pulled his sponsorship and the bill introduction was delayed until May 12, 2010.

Although the Kerry-Lieberman has been introduced, its several hundred pages were not fully analyzed as this issue of *Shareholder News* was being prepared. It is predicted there are many similarities to the House version. According to early reports, the costs of electricity, natural gas, and gasoline will all see price increases driving up energy costs, and thus other costs, to all Americans.

While American companies are expected to fight for business, both here at home as well as in foreign markets, any cap and trade/carbon control/climate change bill passed by the U.S. Congress will have no effect on foreign competitors. As written in the May 17, 2010 *Wall Street Journal*, “..since America is not a planet, Kerry-Lieberman will have little to no effect on global CO<sup>2</sup> concentrations as the Chinese, Indian, and Brazilian economies expand. But the bill would impose carbon tariffs on countries that don't adopt similar restrictions, likely leading to a trade war.”

# FIRST QUARTER PERFORMANCE

**Xcel Energy Inc.** today reported first quarter 2010 GAAP (generally accepted accounting principles) earnings of \$167 million, or \$0.36 per diluted share, compared with first quarter 2009 GAAP earnings of \$174 million, or \$0.38 per diluted share.

Ongoing earnings, which exclude adjustments for certain non-recurring items, were \$0.42 per share for the 2010 first quarter, compared with \$0.38 per share during the first quarter of 2009. Ongoing results for the first quarter increased in 2010 primarily due to higher electric and gas margins as a result of the positive impact of constructive rate case outcomes and interim rates, as well as increased sales, particularly to residential customers in Colorado and Texas.

However, the higher margins were partially offset by expected increases in operating and maintenance expenses as well as property taxes.

“We’ve had a positive start to the year delivering solid first quarter earnings,” said Richard C. Kelly, chairman and CEO. “We announced the acquisition of two natural gas power plants in Colorado, which will provide long-term value to our customers and shareholders. In addition, we are reaffirming our 2010 ongoing earnings guidance of \$1.55 to \$1.65 per share.”

(For more information please contact shareholder services or go to [www.xcelenergy.com](http://www.xcelenergy.com))

**Otter Tail Corporation** announced consolidated revenues of \$262.2 million during the first quarter of 2010 compared with \$277.2 for the first quarter of last year. However, consolidated operating income improved to \$16 million compared with \$8.6 million for the first quarter of 2009.

Consolidated net income was \$4.7 million compared with \$4.4 million for the first quarter of last year, and diluted earnings per share totaled \$0.13 compared with \$0.12 for the first quarter of 2009.

Otter Tail reaffirmed its earning guidance of \$1.00 to \$1.40 per diluted share for 2010.

“We began seeing limited signs of improving economic conditions during the first quarter of 2010,” said John Erickson, president and CEO. “Our consolidated operating income improved significantly over the same quarter a year ago as cost reduction, productivity, and efficiency initiatives implemented across our businesses have been effective.”

“Our consolidated earnings improved despite a reduction in revenues and a \$0.05 per diluted share charge to earnings stemming from healthcare reform legislation.

“Our Electric segment continued to perform well and first quarter financial results were in line with expectations for our plastics, manufacturing and food ingredient processing segments.” Erickson continued, “Because indications of economic recovery are mixed, we expect 2010 to be another challenging year, requiring continued discipline in managing costs and capital expenditures. Even with economic uncertainty and the first quarter charge related to healthcare reform legislation, our earnings guidance for 2010 earnings remains in the range of \$1.00 to \$1.40 per diluted share.”

(For more information, please contact shareholder services or go to [www.ottertail.com](http://www.ottertail.com))

**MDU Resources Group** reported first quarter 2010 consolidated earnings of \$41.6 million, or \$0.22 per common share, compared to a loss of \$344.0 million, or \$1.87 per common share during the first quarter of last year. Excluding an after-tax non-cash charge of \$384.4 million related to low energy prices on March 31, 2009, first quarter earnings for 2009 were \$40.4 million, or \$0.22 per share.

“These results underscore the value of our industry and geographic diversification strategy,” said Terry D. Hildestad, president and CEO. “Our regulated utility and pipeline and energy services businesses both had record first quarters, which helped mitigate the effect of weather and the country’s weak economy on our construction businesses. As a result, we finished the first quarter ahead of where we were at this time in 2009”.

Hildestad added, “We are pleased that we have maintained a solid balance sheet and good liquidity, which puts us in a good position to take advantage of opportunities as they arise in all our lines of business. We are in the right industries. Our companies are positioned to grow from the additional energy and infrastructure that our country will need as the economy begins to expand.”

(For more information, please contact shareholder services or go to [www.mdu.com](http://www.mdu.com))

# CARBON DIOXIDE – A PROBLEM?

Media outlets of all stripes have been reporting on, and commenting about, “carbon” or “carbon dioxide” content in the atmosphere for the last several years along with many warnings that if mankind doesn’t change its ways, our world will change dramatically – and for the worse. Scientists that don’t agree with those predicting calamity are branded “deniers”.

Professionals in the political arena claim all those under the age of 35 are convinced man is causing climate change, so therefore it is a reality that some type of political action must be taken, no matter the science of climate change. Perception is reality.

There have been two major scientific debates regarding the production of electricity in the United States during the last one-half century that can be tied together by the impacts of public opinion. The first, during the 1960 and 1970’s regarding nuclear energy, and now today regarding man’s impact on climate change.

During the 1960’s, advocates of nuclear generated electricity claimed electricity would be so very cheap it wouldn’t even be metered. Reactors were built all across the nation during that era and are still operating today – and are producing solid base load electricity at fair prices.

Then came public over-reaction to the plant failure at the Three Mile Island nuclear station and attitudes changed overnight. Sadly, too many people took their understanding of the operations of nuclear power plants from the movie “China Syndrome”, and the beginning of the end was underway.

States passed moratoriums against the construction of nuclear power plants. Political pressure on utility companies forced cancellations of nuclear generating stations, some even under construction. Even municipal bond issues failed under the political pressures causing investors to lose millions upon millions of dollars.

Now, decades later, public opinion still supports irrational fears surrounding handling, storage, and reprocessing of spent fuel rods from nuclear powered generating stations. Nuclear physicists and engineers know and understand the risks of working with nuclear materials, and they have designed safe practices to control those risks.

But still, public fears rule the day.

Now, some supporters of man-caused global warming/ climate change are making public statements that a solution to the carbon “problem” may very well be

rooted in a resurgence of non-polluting, carbon-free nuclear generated electricity. Even the founder of Greenpeace has publicly stated he was wrong in opposing nuclear energy when forming the organization.

Are today’s arguments against coal fired power plants based upon sound science or upon some other foundation? Science is exact. Water boils at 212 degrees Fahrenheit at sea level each time, every time. The speed of sound is exact.

Many other scientific questions are addressed by theories. Einstein’s Theory of Relativity.

Over time, scientific theories are tested, debated, discussed, and tested again and again with different parameters until such time as the theory is either proven or disproven and the scientific community moves on to address other unanswered questions. But the debate is never silenced. It is most often encouraged.

But now comes CARBON.

Well qualified scientists who question the hot political belief that carbon dioxide generated by man is causing climate change are called DENIERS! Tagging opponents of a scientific position with a catchy name that instantly implies foolishness is hardly conducive to open and vigorous debate.

Dr. Roy Spencer, well known man-caused climate change skeptic, puts the importance of carbon control this way: “As of 2009, there were only 38 or 39 molecules of carbon dioxide (CO<sub>2</sub>) for every 100,000 molecules of atmosphere, and it will take mankind’s CO<sub>2</sub> emissions another five years to raise that total by 1 molecule, to 40 out of every 100,000. Yes, we might double the CO<sub>2</sub> concentration of the atmosphere by late in this century, but 2 times a very small number is still a very small number.”

World famous physicist Freeman Dyson pointed out: “The fundamental reason why carbon dioxide in the atmosphere is critically important to biology is that there is so little of it. A field of corn growing in full sunlight in the middle of the day uses up all the CO<sub>2</sub> within a meter of the ground in about five minutes. If the air were not constantly stirred up by convection currents and wind, the corn would stop growing.”

The late Professor Reid A. Bryson, Ph.D., D.Sc., D.Engr., Senior Scientist, Center for Climatic Research may have said it best: “You can go outside and spit and have the same effect as doubling carbon dioxide.”

# CONTROLLING GREENHOUSE GAS EMISSIONS: A STUDY OF STUDIES

**Gary M. Yaquinto**

President, Arizona Investment Council

With Congress having recently freed itself of the burden of reforming healthcare in America, it can now turn attention to other weighty issues like reforming the finance industry and regulating greenhouse gases. Visitors to AIC's Web site have probably noticed from our past postings that we have a keen interest in how governments impose controls over greenhouse gas emissions.

Setting aside the continuing debate over the science of global warming and how/whether man-made emissions contribute to climate change in any significant way, it's clear that control measures like cap-and-trade and carbon taxes will create disruptions in the economy. Most studies, including AIC's own study, indicate that these measures will create a drag on the economy. However, some researchers predict a positive economic impact.

Well, we wanted to know who is right – or at least who is more correct: the economists predicting GHG

controls will lead to higher energy prices, fewer jobs, and less output; or those predicting positive gains through a shift to a “greener” economy. So, we asked economists at Arizona State University to review the most prominent studies of these matters and evaluate whether they are based on sound economic analysis or simply tend more toward irrational exuberance.

Using well-established and consistent criteria, they evaluated 11 regional and national studies. The results are detailed in a report only an economist could love, but the overall finding is straight-forward. Controls on emissions increase costs of producing energy, which increase the price of energy to consumers, which has a negative affect on the economy. Those studies predicting negative economic consequences get an “A”. Those economists predicting positive outcomes didn't pay attention in graduate class.

(The full report can be found at [www.arizonaaic.org](http://www.arizonaaic.org))

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## A SIGN OF THE TIMES

Montana Dakota Utilities recently filed an application with the Public Service Commission (PSC) for a rate increase for electricity in North Dakota to help recover various costs associated with the operations of their utility company. The company recently concluded an electricity rate case before the Wyoming PSC.

Otter Tail Power Company recently filed a rate increase request in Minnesota to bring rates closer to the actual cost of providing reliable electric service to its customers. And, both Xcel Energy and Otter Tail concluded North Dakota rate cases several months ago.

During the past decade or so, shareholder owned companies serving North Dakota customers have been tightening their belts, reducing staffs, eliminating under utilized buildings, and working very hard to increase efficiencies in their operations. They have been implementing new technologies to enhance customer service and reliability while striving to save money.

Over all, they have been doing a commendable job in a difficult marketplace as energy sales declined

during warmer winters, cooler summers, and business slowdowns in various service territories. But with each improvement in operational efficiencies, savings become harder and harder to realize.

Rates ultimately must be adjusted upward to provide the necessary dollars needed to assure reliable service into the future. And as investors in shareholder owned utility companies understand, there also needs to be adequate profits earned and dividends paid or investors will sell their shares and move to better investment opportunities which will ultimately drive consumer costs upward.

Utility companies serving North Dakota consumers understand the need to maintain that delicate balance between investors and consumers, and along with Public Service Commission oversight, they will continue to accomplish that very necessary goal – provide excellent service and products at a price that is fair to all parties.

# READINGS FROM THE INTERNET

While *Shareholder News* has no idea whether or not the following information is accurate, it humorously points to the largest obstacle of carbon control. No matter if the USA, unilaterally, or in concert with other industrialized nations place arbitrary caps on carbon emissions, Mother Nature does have a way of upsetting the best laid plans of man. The following non-sourced piece is reprinted from the Internet:

“All of you out there in the USA and across the globe who have fought so hard to tackle the hideous enemy of our planet, namely carbon emissions, you know ....”climate change” or “global warming” .... well, I feel it is necessary to inform you of some bad news. It really does pain me to have to bring you this disappointing information.

Okay, here’s the bombshell. The recent volcanic eruption that took place in Iceland, with its spewing of volcanic ash has, to this point, **NEGATED EVERY SINGLE EFFORT** you have made in the past five years to control CO<sup>2</sup> emissions on our planet.

I know, it’s very disheartening to realize that all of the carbon emission savings you have accomplished while suffering the inconvenience and expense of:

driving hybrids, buying fabric grocery bags, sitting up late to finish your kid’s “The Green Revolution” science project, throwing out all of your non-green cleaning supplies, using only two squares of toilet paper, putting a brick in your toilet tank reservoir, selling your SUV and speedboat, going on vacation to a city park instead of Yosemite, nearly getting hit every day on your bicycle, replacing all of your \$1 light bulbs with \$10 light bulbs ...well, all of those things you have done have all gone down the tubes in just the past few days.

The volcanic ash emitted into the Earth’s atmosphere in the past few weeks has totally erased every single effort you have made to reduce the evil beast, carbon.

I’m so sorry. And I do wish I had a silver lining to this volcanic ash cloud, but the fact of the matter is that the brush fire season across the western U.S.A. will start in about two months and those fires will negate your efforts to reduce carbon in our world for the next two years.”

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## DIVIDENDS DECLARED

Otter Tail Corporation recently declared a common stock dividend of \$0.2975 per share, payable on June 10, 2010 for owners of record effective May 14, 2010.

According to the First Quarter Performance Report issued by Xcel Energy, they declared a common stock dividend of \$0.25 per share.

MDU Resources Group declared a dividend of \$0.1575 per common share during their May 13, 2010 board meeting, unchanged from the previous quarter.

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## CBM WATER NOT HARMFUL

During the last several years as developers were producing natural gas from coal seams, there have been claims that water produced from these coal bed methane wells was harmful to livestock and other agricultural interests.

Now comes an article published in the Billings, Montana *Gazette* reporting that a recently concluded seven year study found that the water produced from CBM wells has not harmed farmland or crops. The study focused on soils and plants irrigated with water from the Tongue River.

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## GAS MARKET STILL INTERESTING

In northern states dependent on reasonably priced energy to meet winter heating needs, the supply and price for natural gas is a frequent topic for coffee shop visits. With prices being ready to ride a roller coaster at any time the supply picture changes, it looks like prices are settling in for a period of relative stability.

Technological advances in drilling and completing wells are opening new production horizons all across the nation. Shale formations with names like Bakken, Fayetteville, Haynesville, and Marcellus are proving to be instrumental in bringing more natural gas to market in the United State.

Combining the warm winter experienced over much of the northern states with the increased gas production resulted in an early start of seasonal net underground storage injection of gas. Early in April, working gas in storage was reported at 1,669 Bcf – 12.1 percent higher than the five-year average.

Prices seem to be reflecting the solid supply and production levels with natural gas futures prices remaining below \$6 per decatherm through December 2011. While this news is not too inviting for gas producers, it will be welcome news for consumers of natural gas. But if history is an indicator of future trends, watch for exploration activity, and then production activity to begin to slow down.

# UTILITY INDUSTRY TERMS

**Mega:** A prefix used to denote 1,000,000 units.

**Megawatt (MW):** One megawatt equals one million watts.

**Megawatthour (MWh):** One megawatthour equals one million watthours.

**Natural Gas:** Naturally occurring mixtures of hydrocarbon gases and vapors, the more important of which are methane, ethane, propane, butane, pentane, and hexane. The energy content of natural gas is usually taken as 1,020 Btu/cubic foot.

**NERC:** North American Electric Reliability Council, the group charged with the responsibility of assuring the availability of quality electricity all across the continent.

**Market Power:** The ability of a seller to sustain profitable prices above competitive levels for a significant period of time.

**Market Value:** The current or prevailing price of a security or commodity as indicated by current market quotations, and therefore the price at which additional amounts presumably can be purchased or sold.

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