

**Governor Pawlenty's Next Generation Energy Initiative
Speech to the Midwest Ag Energy Network Summit
Crowne Plaza Hotel, St. Paul
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Well, good afternoon and for those who are not from Minnesota welcome to our great state. We are glad that you are here for this important Midwestern conference. And I am glad to share a few thoughts with you, as you finish up your lunch, about the future of renewable energy and how that intersects with agricultural policy in Minnesota and across the country, as well as outline some further goals and some announcements that we have for the future of renewable energy policy in the state of Minnesota as well.

Well, let me just start by mentioning that Peter Drucker, of course, is recognized by many as one of the most profound strategic and organizational thinkers of our time. Sadly he passed away earlier this year at the age of about 95. He said many profound and insightful things over the course of his life, but he said this about the future, "The best way to predict the future is to create it." I think that's a very good piece of insight as we gather today to talk about the future of energy policy and renewable energy policy in the United States, in the Upper Midwest, and in Minnesota. The future can sometimes cause a lot of people anxiety, because it is uncertain. We don't know for sure how it's going to unfold or what it holds for us individually, or collectively, but I say, to Minnesota, and to the Midwest, and to the nation, that when it comes to energy, let's not wait for the future. Let's go create our own future. Let's chart our own destiny about how we can have a better and brighter energy future for Minnesota and for the Midwest and for the United States of America.

They say that necessity is the mother of invention. If that's true, when it comes to energy, she is very, very pregnant. We need to make sure that we continue the process and see it through to the proper conclusion. I want to appeal, today, to your sense of ingenuity, to your sense of innovation, to your sense of creativity, to your sense of urgency, and boldness as well. You've heard many speakers over many weeks and months, and for many of you in the room years, talk about the win-win-win-win situation that is renewable energy. You know that amongst other things, that we as a nation, need to have a brighter and better energy future, because we are a nation that's held hostage to outdated energy policy. We have an unbelievable and unhealthy amount of our economic future hooked to fossil fuels. Fossil fuels, as you know, and particularly oil, as a percent of our energy use, we'd hope it would be declining, but it's actually increasing under projections. We're going to be more dependent on foreign oil if we don't change course, if we don't chart a different future. Now there's a lot that is concerning about that fact. One of the basic facts, of course, we are funding, sadly and unfortunately, directly or indirectly, both sides of the war on terror. I mean, we are funding our side. And then we're buying oil, lots of it, from countries, if not as a nation, individuals within the nation, are then funding groups and individuals who don't like us, and worse yet are quite hostile toward us. And that manifests itself all sorts of challenges for our nation. We also, of course, have an economy that is dependent upon oil, and as a fossil fuel source it is mercurial, it is...I shouldn't use the word mercury in a context for that. It is volatile, and so we ride this roller coaster of, kind of, economic tides, ups and downs, dependent on what's going on in the oil market. And this market, currently, and at least for the intermediate future, in terms of traditional oil market, is so sensitive that one or two significant events substantially changes the whole market, and therefore substantially changes our economy and it can happen overnight. I mean, many of you watch this very closely, but just last year there were several attempted incursions into Saudi Arabian oil fields by fortunately not very well-staffed terrorists, but had those missions succeeded and disrupted one or more of the major oil facilities in Saudi Arabia, it would have changed the oil market overnight. We would have all awoken the next morning, not only to that news story, but probably to \$100 or \$150, or in some experts' scenario—depending on how large the incursion and disruption would be—\$200 a barrel oil. Now can you imagine...can you imagine, what that would do to our economy, to our quality of life?

So we have, as a matter of economic imperative, as a matter of national security imperative, the need to chart an even bolder, different future. In addition ...in addition to all of that, we know that it is not responsible as stewards of our environment, as stewards of our natural resources, of our air and our

water. Particularly, in a place like Minnesota, where we just pride ourselves on the beauty and wonder of our natural resources and what that means to our citizens to be better stewards of our environment. Continuing on the path we are on, with respect to fossil fuels and oil is not a good way to do that. In addition, we all yearn and strive for ways to get more economic opportunity to our farmers, to our agricultural producers and to bring back and stabilize economic development, capital formation, and job growth in rural America, in greater Minnesota. You know the story as well as I do. I'm sure the same is true in your states. We have this economy where if you live in a metropolitan area, or one of the larger regional centers, while there's ups and downs things are kind of chugging along, but if you get outside of those regional centers you get into smaller communities. The challenge is, my goodness, we have an aging population. We have our young people leaving town, because they don't have economic opportunity, they don't see an economic future and so, understandably, they leave to pursue that in other places. And then, of course, the tax base erodes, and so you have fewer and fewer people and tax capacity left to pay for increasing demands for services in a population that is increasingly challenged, and increasingly shrinking. It is not good for a place like Minnesota, or in your state, to have all of the economic energy, all of the demographic energy, concentrated in limited numbers of metropolitan areas and regional centers. And so it is good for our farmers, yes, to have value-added agriculture that comes in many forms, including a very robust and aggressive renewable energy agenda, but also importantly, renewable energy brings back capital investment, substantial capital investment, big capital investment into parts of the state that are struggling to find those kinds of opportunities. And then you bring viable and good paying jobs that come with that. And the ethanol plants are the tip of the iceberg. I foresee a future where we are going to have all sorts of those kinds of opportunities. So, in...you know all of this, but I want to just emphasize that this is a win-win-win-win. It's a win for national security. It's a win for energy policy. It is a win for rural economic development policy. It's a win for environmental policy. To see the benefits of all of this, for those of you who have been in the discussion for years, you are like, "Yeah, Yeah, I got it," but we need to make sure that as you go back to your communities in your positions of leadership in associations, in organizations that we educate the broader public, because not everybody hears or sees those same things every week or month like you do.

So, in Minnesota we have work to do and we need to make sure that we take our ideas, that we keep working on them, and we not just talk about them, but we implement them. I'm reminded of the story of Thomas Edison and Henry Ford, they were sitting around and talking about, you know how can we figure out a way to cook outdoors and to have an experience like that without having to have this inefficient process of chopping down trees, chucking in wood and burning it. They literally visited and deliberated until they invented charcoal briquettes. I mean, and so it can be done, but we need a Can Do attitude. So, that's the kind of spirit I want to bring to it today. Minnesota and the Midwest, of course, is not only the nation's breadbasket, it's the innovation breadbasket of America. I mean, look at Minnesota's example, and I know the same is true for many other states represented in this room. We had a tornado come through Rochester, Minnesota, essentially wiped it out, put it on the mat. And they rally back, and amongst other things, they create out of the rubble of this tornado, the Mayo Clinic. You know, the world's leading health care clinic and hospital. We have two gentlemen at the University of Minnesota who are somewhat stymied by their environment at the University, given what they're doing in terms of research and the deployment of technology. They go out to a garage in Fridley, Minnesota, which is a first-ring suburb north of Minneapolis and they start Medtronic. You know, arguably the world's, well the world's leading medical device manufacturer and technology. We go down to Austin, Minnesota, they struggling to do with too many pork shoulders. They create SPAM. And I'm not talking about the computer kind...you know what I am talking about. Some audiences, I've got to explain, you, you get that. Not only do they have SPAM, it's revolutionizing, it's evolutionizing itself. I mean they got low-salt, they got low-fat, they've got turkey SPAM. I mean, check it out, it's not your mom and dad's SPAM. It's good stuff. Up in northern Minnesota we had this iron ore industry and mines that for generations and decades have served the country so well, but it was being depleted in that form. We have people who invent taconite, you know and then extend the life of the industry, the mines, by decades, by generations. We go to the north shore of Lake Superior and we have a couple people messing around with grinding balls, trying to figure out, you know, how can they potentially use that technology, and accidentally they put some sand on paper and invent sandpaper and start 3M. And the list goes on, and on, and on.

And thank goodness, thank God, for the ethanol pioneers in Minnesota. And I am so proud, I am really proud to be from a state, where before it was cool, people back in the early nineties, were saying, "You know what, I've got a vision about how this can look in the future. I think we can do this in Minnesota." And it was controversial at first, you know people were battling back and forth about how to do it, how to incentive-ize it, how to subsidize it, how to get the science involved, but the pioneers persisted. And in this state, of course, we led the nation in getting this done. Only state in the nation, first state, to have an E-10 mandate. We just by-the-way, are going to have it doubled in a minute...in a year, I should say.

The point of all of this is we innovate and the renewable energy debate has come alive and as the rest of the nation kind of catches up to us in the rhetoric and the debate and understanding, it is our opportunity, really our responsibility to then say well, let's raise the bar even higher on ourselves. So, I am really, really glad to see this who debate unfolding. I am really grateful and proud of the fact that we have this fusion of agriculture and energy policy in a way that is so exciting for all of the reasons I mentioned earlier, greatly beneficial to our ag producers and to greater Minnesota. I am proud to be the chair of the Minnesota, or the Midwestern Governor's association, and to have that association get behind and endorse formally the national 25 by 25 goal that says we're going to have 25% of our energy coming from renewable sources by 2025 in all categories. We need to continue to push that. We have a Minnesota version of that, and I want to talk more about that just quickly, but in my State-of-the-Sate Address last year in 2006 I outlined a goal for Minnesota to have a state 25 by 25 and put it into measurable terms in all categories: in fuel, and in gas, and electricity production. And, I am going to ask and continue to ask our legislators, many of whom are here today I see, great legislators, to pass that this year. And we can again lead the nation in how that unfolds and how that gets implemented.

So, today I want to announce a set of further initiatives for Minnesota. We hope it inspires your thinking and perhaps your work in your states and, of course, we don't have all of the answers. If you've got some good ideas or suggestions, we'd love to steal them and bring them to Minnesota, but the initiatives I am going to outline focus on the three categories. First of all, more renewables; two, more energy conservation; and three less carbon. And let me just go through those each just quickly.

As I've mentioned before, Minnesota's been, I think a national leader, if not the national leader in renewable energy. We were the first to have the E-10 mandate on a bipartisan basis, our legislature passed a year ago, they are going to E-20. We are phasing that in over time, we've got to get the federal government to approve the use of E-20 and make sure the warranty issue is addressed. That kicks in, either as an average, we can to E-20% by averaging our fuel use to make sure it averages out to E-20. If that doesn't happen by 2012, then actually all gas must contain 20% ethanol by then. In the meantime, we have two paths to go and we are working with the federal government to get that worked out, so we are pleased with that. We were the first in the nation to have a biodiesel mandate, which is now in law and operation. It's a 2% soy-oil blend in diesel fuel, and we are the first in the nation, we hope that over time that it can be expanded. I voted for the 5% version of it when I was in the legislature. I hope that we can have that go up to 5% in Minnesota. There's been a few hiccups in some of the cold weather months. It turned out to be a technology and refining issue that can be and is being addressed. We have a very aggressive community energy goal in Minnesota, 800MW of locally owned wind by 2010 as a capacity. We also have a been aggressive in a number of other areas, but I think now it's time to say raise that bar again and enhance our nation's leading status. So, I want to take our renewable energy objective, first of all, as we have in Minnesota already, and it says that by 2015 we are going to have at least 10% of our electricity supply to consumers and others from renewable sources by 2015. We are well on our way of achieving that goal, but that goal is too modest. So, instead of 10% by 2015 for electricity producers, I think we should expect, in fact demand, that by 2025 the do their part to fit in under that 2025 objective and have 25% of the energy that they produce come from renewable sources by 2015. We can also improve the Renewable Energy Objective by making sure that it has some teeth in it. There's a lot of these that have kind of aspirational [sic] components to it, but we want to say that as part of it there will be penalties, specific financial penalties and consequences if you do not meet these objectives under this new 25 by 25% energy requirement. We also want to make sure that with respect to how we do this, that

it is flexible enough to allow utilities and regulators to respond over the course of these years to changing market conditions, technology, consumer appetites, regulatory conditions. So, obviously, between now and 2025 there's going to be lots of different changes in technology and capabilities and we have to have some flexibility built into it as well.

I also want to make sure that in the REO, the next generation REO contains mechanisms to promote locally-owned and developed and operated energy alternatives. The local production of energy has proven itself to be wonderful and most of our ethanol plants, we have a few that are not locally-owned, obviously, but part of the objective here is to get value-added opportunities into the agriculture community, into the communities themselves. So, we want to design these things in ways that incentivize, encourage, promote, highlight, local ownership of these energy sources. We want to make sure that that continues. I also want to announce as a part of this next generation of energy initiative that we want to dramatically, dramatically increase the amount of wind capabilities, capacities that we have that's locally-owned and generated. Like I said earlier, we have about 800MW currently, we want to increase that five-fold, we want to increase that five-fold to 4000MW-5000MW, so we'll take that up in quintuplet. We also want to make more E-85 available. We talked about E-20 earlier. That's helpful, but one way to get to an E-20 average or beyond is to make sure we have more E-85. So, we are going to propose that we quintuple the number of E-85 pumps in Minnesota in the next four years. We have about 300 now, give or take, and we want to take that up to 1500. We want to increase it five-fold in the next four years, and to do that we'll propose incentives, and grants and other financial mechanisms to help our gas station owners, particularly the ones of small and modest capabilities to make that conversion, to make E-85 more available, dramatically more available in Minnesota.

We also need to move to the next generation of biofuels in Minnesota. We have, as I've said, the beginnings of some capacity, in terms of turkey manure, biomass, and the like, but there are two areas that I would like to emphasize. First, is cellulosic ethanol production, this is all the rage and all the discussion, but it is actually being deployed in a preliminary way in Iowa, and some other places. We want to make sure that it happens in Minnesota, in a way that it provides additional opportunities to the agriculture community in our state. And so we will be proposing to the legislature this year, financial incentives, grants, rewards to get this type of capability up and running and deployed in our state as quickly as possible. I also want to add to that list, biogas-gasification of biomass. We need to make sure that we don't overlook this opportunity or de-emphasize it. Again we have a good beginning in Minnesota with a couple of world-leading or nation-leading examples, but this technology is evolving very rapidly and we want to get it deployed in our state.

We also want to make sure that is part this next generation energy initiative, that we are more aggressive with respect to energy conservation, saving, being more efficient with respect to how we use the energy that is currently produced. We have a very good energy conservation program in Minnesota, but more needs to and can be done. So, we want to make sure that we look to Minnesotans and we ask them to pitch in, but also the producers are going to have to play the key or a key role in this. So as part of the initiative we are going to have to measure and have an energy savings goal that we reduce the use of fossil fuel energy in Minnesota on a Btu per capita basis by 15% by 2015. Fifteen percent, it is aggressive, but it is achievable. It would significantly increase the amount of electricity and natural gas we save each year through energy-efficiency and conservation. We want to change our utility conservation program, currently from a spending program to an energy savings program. Right now we ask the utilities, "How much are you spending to dedicate to conservation?" That's O.K., that's a worthwhile thing to measure, but in addition, we want to say, "What are the results?" Instead of measuring the output or input, let's measure how much energy is actually saved by these initiatives. We are going to require, I'm going to ask the legislature to put this into law, that we reduce the amount of energy that they sell to consumers every year by 1.5%, as a numerical, actual goal. Now, that will increase transparency about these efforts. It will increase accountability. It will be real, it will be tangible. And together, I think when you look at these reforms that I am talking about it is realistic to say that we can double the amount of electricity we save and increase natural gas savings by 50%, when you look at how this accumulates over the years that we're talking about.

Lastly, there's a program in Minnesota and it is kind of a good house keeping seal of approval on buildings, it is called the Energy Star Buildings. We have 87 buildings that have received this award in Minnesota, they include schools and office buildings, and even churches. We want to get at least a thousand of those designated in the near term from the state, so get more people, more focus, on how they can get this type of designation to be a energy-friendly, energy-efficient, energy-conservation oriented building. We also have as part of this next generation energy initiative goals regarding reducing carbon in Minnesota, and in the country and across the world. Our global climate is warming, at least in part due to the energy sources that we use. Minnesotans did not create this problem by ourselves, obviously, nor can we solve it by ourselves, nor can the Midwest, but there are things that we can do to do our part. In addition, it will paint a better, brighter future for all of us in a variety of ways. So, we have to make sure that we take an approach, like we did with our nation leading mercury emission plan and work with a number of stakeholders, to make sure that we have common goals, common objectives and we are rowing in the same direction.

I am going to start by requesting the nationally recognized center for climate strategies to Minnesota to conduct a wide-ranging and inclusive process to develop a plan to aggressively reduce greenhouse gas emissions in Minnesota in the near and intermediate term. There's also some more immediate and tangible steps that we will take that includes, that Minnesota's electric utilities should prepare for the future by offsetting carbon emissions from new fossil fuel generation sources. So, inevitably, there is going to be more production capacity that we are going to need and going to want, but as that comes online and should come online, we want to make sure that there is an offsetting requirement when it comes to carbon emissions in Minnesota. There are number of ways to do that, but we think that Minnesota should join the Chicago Climate Exchange, and some other national registry that will help us begin reducing greenhouse gas emissions from state operations. We want to work with the other Midwestern governors to take a Midwestern approach to these issues as well. We also want to make sure that as this requirement kicks in, and goes forward, that there are market opportunities for people who are producing these emissions to get credit or buy credit in a marketplace, and so this can be flexible, and market-oriented. We have that in mind as we design these steps.

All of this as I have been describing, it will be good for agriculture, it will be good for a Midwest rural economy, it will be good for Midwestern consumers, it will be good for the environment, it will be good for energy security, it will be good for energy policy. And it would just be the right thing to do. So, I am very, very excited about it. I hope that as you stew on this, if you have some suggestions, some thoughts from your state, please let me or my staff know. Again, we don't have all of the answers, but we have a lot of energy and we want to make sure that we are pushing these things forward. I hope that I can come back to this group in a couple years and get back to you that we have dramatically increased our renewable energy in Minnesota, that we have dramatically reduced our reliance on electricity and energy sources through conservation and efficiency, and that we have a new carbon emission control program in place so that we have stopped making it worse, and are in the process now of doing our part to make it better, by reducing carbon emission emanating from Minnesota. I am really, very proud of my state, and I am sure that you are proud of your states as well. I look forward to working with you and your state's leaders to make sure that regionally, nationally, that we can make progress on these important issues.

Thank you so much for letting me come by and share these thoughts.