

SOUTHERN GOVERNORS' ASSOCIATION

2008 ANNUAL MEETING

THE GREENBRIER

WHITE SULPHUR SPRINGS, WEST VIRGINIA

SETTING THE SOUTHERN TONE ON ENERGY INDEPENDENCE

AND CLIMATE CHANGE

MONDAY, AUGUST 11TH, 2008

Transcripts recorded by:
Catherine A. Altizer
Court Reporter and Notary Public

GOVERNOR MANCHIN: Let me go ahead and get started and they'll probably be coming in, I'm sure, shortly.

Is there anybody out in the hallway? Why don't you holler out and bring him in. There we go. Open the doors and bring him in. We've got security. With all of us, we carry a lot of security. So when you don't show up, we go after you.

Okay. Well, let me just say first of all, good morning and thank you so much for attending. I hope you enjoyed the weekend. I hope that we have been able to make your stay as enjoyable as possible for the past few days. I hope you return back to The Greenbrier, back to wild, wonderful, West Virginia, and enjoy more of this hospitality. The people are truly as genuine as you found out. They really love doing it and they want you to return and bring your family and enjoy all of the fine things we have in our great state. So again, I want to thank you. I want to thank my staff who worked so diligently and so hard with the SGA staff, Diane and her entire staff, Liz and of you all, who've really worked together to put a fantastic program together for this weekend. I have heard nothing but good comments. The people are all very appreciative.

I want to talk, also, a little bit about the meat of this conference. Basically, the workforce development, workforce training that we had worked on this past year. So far, it's been important for each one of our states, and finally, important to this great nation, to stay in the world market, as we are a leader in it, as well. But you have to have a well-educated, clean, healthy workforce to do it. And we understand that and we are going to work very hard. This is our responsibility, our charge as state leaders. I guarantee that Southern Governors are up to the challenge and we will get the job done. Energy, I don't need to say enough about it. We talked about it. We've got that common denominator. I am so proud and so pleased that Tim Kaine, our Governor from Virginia, has taken this mantra, if you will, this coming year -- it's the thing that's going to basically make and shape this nation, make us less dependant on foreign oil, make us more secure as a nation, and make us safe. So I look forward to working with him and making sure we unite with one common voice and one common plan.

The innovation in trends, I think as Governors you can't -- I don't know if you all imagine or could understand how excited we were to spend that amount of time talking and exchanging ideas. I know people think that we sit down periodically. We try to and we should talk more. We get together if we see someone, but our lives are so busy and demanding that when we get the time to spend -- for all the time that we did yesterday to find out what's working. And if I hear Matt say something, Bill talked, Tim and myself, about things that have worked, things that might not have worked as well. We learn from that, take it back home and what we'll do is, I will have my technology people say call Tim and his people, who do we contact there, and we'll bring people over to see what they've done. And that's how it really works. And that's the beauty of these conferences. They bring us together. The public/private partnerships, I've said this, will continue to reiterate that no one can go it alone anymore. I don't care how much money you have in the private sector. If the public sector is not in step with you, it's all for not. I don't care how much of a desire we have in a program to move, if you all don't buy into it, in the private sector, we're not going to move that. We know that. And it also imperative for us to come together with these guys right now to form a relationship and a bond and have an understanding and come to an agreement and move together. That's the public/private way. We appreciate that and also the exchange of ideas.

It's been wonderful. I've enjoyed this year of Chairmanship of the SGA. I thank Diane and her entire staff for all the support. They do the heavy lifting. What we do is to support them to make sure that these continue to run as well as they do and that the programs are as successful and as meaningful and adds value to each one every year. I have said that from time to time. If there is no value to the organizations that you come and you invest your companies in and all of you get behind, you have to go home and give a report. I understand that and it has to be a meat and potatoes report. So if you can do all of that and obtain what we have obtained in the last few days when you are in a place such as The Greenbrier, in the great state of West Virginia, then we have all come together in this process then. I do want to say thank you for allowing me to serve as Chairman for the past year. It is now my immediate honor and my pleasure as not only the Chairman, and in one minute I'll be the past-Chairman, but to turn it over to the person who is not only so capable of taking this to the next level, but also has been a dear friend from our sister state. He likes to say the mother state of Virginia. Tim Kaine is going to be an absolutely wonderful Chairman and we are all looking and eagerly waiting and taking this energy sustainability and climate change and work those and have that as a main goal. And so at this time, I want to introduce to you the new Chairman of 2009 of the Southern Governors' Association, Governor Tim Kaine of Virginia.

GOVERNOR KAIN: Thank you. As Joe says, it has been a great weekend. A good mixture of policy and ideas, sharing ideas, chatting with many of you, and having a little bit of R&R which is important and we all need it to be rejuvenated in these meetings. They gave us the opportunity. Joe and Gayle, your hospitality has just been spectacular. It's a beautiful place. But it's not the physical location. It's the friendship and the people that make it work. And you guys have done a great job this weekend as you have during the year. Joe has had time as to do his share. He's been head of the SGA, head of the Southern States Energy Board, head of the Democratic Governors' Association, and probably ten or fifteen other organizations. So I know you are glad to at least hand one torch over.

GOVERNOR MANCHIN: I've handed two over.

GOVERNOR KAIN: He's handed two over. That's great. Anyway, it's good to have you here. What we are going to do this morning is talk about finding energy. I am really also thrilled to be joined by Phil Bredesen, the Governor of Tennessee. Phil and I had met early in my time as Governor. We went to Iraq and Afghanistan together to visit our Guard troops in March of 2006. He and I toured as Governors. I mean that was a very powerful experience and I have great admiration for the work he is doing. I told him people were bragging on him yesterday even though he wasn't in the meeting, in terms of the innovative work they are doing in Tennessee on the issue of controlling diabetes. I know the Tennessee work there was really highlighted and Matt Blunt from Missouri, who has done a great job. I have family in the Kansas City area and I am a University of Missouri grad, so I follow Matt a little more than I might any other state. I am passionate about the Midwest, about his state. He is a real innovator. Matt, we are so glad you are here, too.

Let me just start off with a story and I am going to work through a little bit of a power point presentation. I'll give you some ground rules. The point is at the end to open it up for discussion to the Governors and from you all.

Story: I ran for Governor in 2005. Virginia has an off-cycle election and the campaign was a long one. I was sort of the presumptive democratic nominee for four years. And there was a presumptive Republican nominee for four years until Election Day. So it was a very long campaign. During that campaign, that whole four years and especially for the intense part of it from March until November, I

can only remember twice, twice in 2005, where anybody asked me anything about energy. Only twice. Right after Hurricane Katrina, gas prices spiked up, as you'll recall in September of 2005, and so there were some questions about gas prices. Second, this wasn't really a request of me, but our Policy Chief, Ron Sheppard, was here to work with others and he had the idea of doing a -- proposing a sales tax holiday for purchases of energy efficient appliances, which we have since put in place in Virginia. We did a little press event about that and got about two and three quarters of a column, maybe a little bit of press, not too much, and that was it as far as energy went during the entire campaign. We are a very large state, 12th largest in population, with a lot of energy issues on the table. I tell that story to say that it was just a top of the line issue for my voters in 2005. And when I got elected, here is where Virginia was; we didn't have an energy plan. As far as much energy is purchased by the state, and as much energy is purchased and with these huge issues about the production, the issues faced by consumers, the state of Virginia didn't have an Energy Plan and never had. And we were on a path of deregulation of electric. Utility rates in Virginia were up half. Had we just, you know, just set and stayed and followed, it would have led us into some cataclysmic issues in terms of prices for our consumers and businesses. That's where we were when I got to be Governor and came in in January of 2006.

Two and a half years since, we have come up with an Energy Plan under the direction of the legislature. We have reregulated the power rates in Virginia with a novel strategy that kind of goes back to a cost of service regulation but builds in incentives for cleaner production and for renewable -- portfolio use of renewable fuels. We have worked on a comprehensive focus on issues such as the offshore issue, recommending to Congress that the moratorium that's been in place by Congress for years should be reexamined and we should at least begin exploratory drilling to determine the size of the reserves so that we can make an informed decision about costs and benefits. We have in Virginia, a nuclear facility that is moving close to permitting. We've done a significant amount of work in research in the state universities in alternative fuels. Some very promising technologies with algae bio-fuels, still is one. So we are doing a ton when just a few years ago citizens were not even asking about it. And I know you many Governors are having this experience. The issue of energy and how we provide power for our homes, businesses, and transportation has gone from a backburner issue to a front burner issue and thank goodness.

Even when it makes me uncomfortable -- I mean I've had protesters protesting me about plant sitings. We had a very controversial issue dealing with a new coal fired power plant in Southwest Virginia. A very clean plant relative to other technologies, but a lot of folks in some parts of the state, may be a minority, but a bold minority, didn't like it. They're even protesting me when I go to pre-k centers. They would stand out there and say, "Why are you supporting new production technology?"

I always see that as a good thing and not a bad thing because it shows that the citizens are interested. Finally our citizens are waking up and saying, "Wow, these issues about energy are very important."

What I want to do today is, I want to walk through what I hope our initiative will be as the Southern Governors' Association issue for the next year and during my year as Chairman. I've run this by the Governors, we have started discussing this in February, and I got a green light to talk about this and add some additional discussions this weekend. And the goal is to recognize our commonalities and, in particular, the features of the Southern region and then use this year as a time for dialogues so we can come up with our own regional strategy. Both to do good things in the South, but also sort of be a representative on a national level when it comes to policy debate. We don't want to be left out. We won't be a region that's not represented. So what I will do is, I will work through a presentation. I will

ask your indulgence. I will say to the Governors, go ahead and interrupt me at anytime. So if you guys want to hold on a slide or if you have a question or comments to go over, feel free. I would ask those of you in the audience if you will wait until the end and what we will do is when we get to the end, I will kind of open it up with a question to seek your thoughts and input to help us do the job that I am going to lay out for us. So let's start right here.

Why find a change in energy sustainability? I think that's a pretty easy one to answer. You all know how important it is. First climate change is happening. There is no doubt that the science shows that the climate change is happening and the climate is warming. The debate tends to be about what percentage of the warming is manmade versus natural. But there is no doubt that it's happening and in an overwhelming way, the scientific evidence shows that there is a manmade effect in the warming temperatures that we need to take an account of. So that's where we begin; climate change is happening. A national framework is something that I think all Governors are in support of. We recognize that these climate changes and energy issues don't neatly stop at the borders of various states. And so we want to do the right things within our states but part of what we also want to do is that we want to promote a framework at the national level. And then as we heard this morning in a meeting of the Southern States Energy Board, if you've got a framework at the national level then you can be part of the global dialogue about what we need to do. So even if there is a national framework, we know that many of the actions and the implementation is going to require Governors and state legislators who will be implementing this at a state level. Southern states have some commonalities that I think are important. We are not just like every other region. First, we are the producers, and I'm going to show a little bit about this in a minute, but we produce the nation's energy overwhelmingly. And that makes the right mixture of strategies and techniques, for the South are a little bit different than for some of the other regions. We look at these issues differently because the South is a producer of energy.

Second, we also have some similar climate change risks because of similarities in our economies, similarities in our topography where we are located as global warming and climate change occurs. We all have some common risks that suggest that we all should try to find some regional work. So my point is, my hypothesis is, and this is what we'll work towards in the South, is a regional voice in the national discussion and there is no better regional voice than the Southern Governors' Association. This is the way where we can come together in a bipartisan way. Having these commonalities regionally and the path for the next year will be to find that common strategy that we can advocate in the Southern Governors'. We will begin in this by sharing success stories. And as I'll show you, all the states in the Southern Governors' Association are doing a significant number of things on energy security, reliability of supply, cleanliness, conservation and greenhouse gas reduction. So it's about sharing best practices, learning from one another and it may be even consolidating our efforts and setting a regional framework that works better.

Let's begin with a unique feature of the South that's very important. The SGA states produce a significant portion of US fossil fuels. It's a very important thing and it makes our slant on this issue a little bit different than other regions. Conventional oil produced in the United States -- in the Southern states, we produce 57 percent. So well over half -- and when I talk about SGA states, for those of you who aren't aware of this, there are four regional Governors' Associations: South, Midwest, Northeast, and West. So we have 16 states or 17. Joe?

GOVERNOR MANCHIN: 16.

GOVERNOR KAIN: I guess I should know that as Chair. Okay, 16. So our 16 states produce over half of the conventional oil in the United States. We produce over half of the natural gas in the United States. We produce a third of coal in the United States and we refine over half of the petroleum in the United States. So when three of these four range of sources that serve as base load and fuel for our transportation system, -- the Southern states produce more than half and coal, we produce a third, which is obviously a very significant portion with much in reserves. This is why this issue is so very important. The other regions the country reliance -- this is not just production for our own citizens. The other regions of the country rely on what we do. The national economy relies on the Southern belt as producers. This is a little bit hard to read, but you can kind of check where you are in your own states. It's not just about what we produce, it's also about employment. I'm going to give you a couple of slides showing how critical energy production is in the Southern employment. This is employment with utilities in the United States and I think I can highlight a particular slide. Yes. SGA states total about 250,000 employees with a total economic effect, payroll effect, every year of about 15 billion dollars. That's what utility employment means to the SGA states. Obviously, that's critical, but it's not just utility employment. The SGA states also have significant industries that are the supply industries.

As we begin to grow wind and solar so to show you that -- we'll go to the next one. You can see a set of industries that are critical to building up the nations wind and solar capacity, you know, the basic industries that produce the equipment that goes into turbines or the equipment for wind and solar. In those areas, we can see each of the states in the South also have significant employment and as we invest, those employment figures can go up. So this is about economic development and jobs at a very critical level. So those are some unique features of the Southern states as producers but also as we look at the greater alternative fuels, the upside for us is a very significant one.

This is a slide that shows the net energy. The net generation sources for each of the Southern states. The figures are, you know, different. You might want to check out where you are in your own states. But just to give you the basic SGA average in our states, it's about 49 percent coal, 18 percent nuclear, 16 percent natural gas, hydro about two percent, renewable about 2 percent and other about 12.8 percent. Other is largely oil because Puerto Rico and the US Virgin Islands, which are both in the SGA, are almost completely powered off oil. And so that's what the other figure shows. I mean, you can see where your own state is and see. But one of the things that I think is interesting as compared to the SGA mixed with the other parts -- with the other four regional Governors' Associations. This one is a little bit easier to see. So you will see the SGA states, as I said, you are only 50 percent coal. The national average is about 48 percent. So our coal, while we are big coal producers, our use of coal over the region is about what the national average is. Nuclear we are at 18 percent, natural gas 16 percent, hydro about two percent, renewable and others. You can look at where the other states are. So the Northeast states are lighter on coal, heavier on nuclear, and quite heavy on natural gas. The Midwestern states very heavy -- I skipped by it -- the Midwestern states very heavy on coal, much more so than the South or the other regions. Heavier than us on nuclear. Western states, as you can see, heavy on coal, a little bit less than us, but heavy coal and then natural gas, but heavy on hydro. One of the things that is interesting about this is, if you look at our profile in the SGA of the SGA states, we have the most diversified portfolio. So of the six kinds of fuel that I have up here, we are the only one where four of the kinds, coal, nuclear, natural gas and other, are in the double digits more than ten percent. So we spread our portfolio a little bit more among the Southern states than others and that's a good thing. Whether it's your investments or whatever else you are doing, having a diverse portfolio is good. You don't want to lean too heavily on any source, as a region, is that's a possible thing. But I think there are

some opportunities there, too. If you look at the SGA renewables number, we are significantly lower in the renewables number than the other three regions and that is a real opportunity for us. Okay.

Here is a state -- a slide I want to spend a little bit of time on. I was kind of stunned when I saw it. There are two slides in this that were very "wow" moments for me. This is the first one and I'll show you the second one in a minute. And that is green house gas emissions by country and by region. So you will see if in the US, -- these are 2004 numbers. If you were at the SSEB meeting this morning, Jim Connaughton, the White House Environmental Advisor, talked about China now being ahead of the US number. But anyway, 6,000 metric tons in the United States. We are the largest CO2 producer in the world. China is at about 5,000 in the 2004 numbers as they were then measured, the EU 3115, and then the Southern states, our 16 Southern states, 0.747 million metric tons. More than Russia. Twice as much as the Midwestern states, more than Japan, and dramatically more than the western or eastern states. Why are the Southern states so high? Some of it is because of use patterns. Use for industry, use for utilities, use for transportation, but much of it is because we are producers. You know the state -- the region that is the overwhelming producer is also going to be the region that has the higher greenhouse gas emission. And so we are high up on this list but I think that is a real opportunity for us, because say if the other regional Governors' Associations do things in regions and they can make five percent reductions, that's one thing. But if we can make five percent reductions, the scale of the reductions that we can achieve if we come up with new strategies in the South, can really make a big difference. And so with that that -- is I think as you can see, there has been a highlight where the Southern states are and you can see that China and the EU are ahead of us but not by much. So the opportunities for us to come up with a regional strategy and get this right, I think, are very, very powerful economically and can be very powerful for the environment, as well.

Let's talk about climate change risks. I mentioned where we're common as Southern states to be producers but we also have a commonality that some of the climate change risks could affect us in some similar ways. First, sea level rise and more severe storms. Of the 16 states, not all are sea, you know, -- oceanside states, but many are. And we obviously know from all we've read about the aftermath of Katrina in New Orleans, that global warming has a significant effect on surges and sea level rises in Southern communities. Next to New Orleans, I am very personally invested in this, is the Hampton Roads Community, Norfolk, Virginia Beach, Chesapeake, Hampton, Newport News, Suffolk, are very, very vulnerable to sea level rises. I've got 1.6 million people in that metropolitan area and they are as vulnerable as any community in the United States next to New Orleans. So that's -- if we see more severe storms and we see sea level, that's something that all of us need to be concerned about.

Second issue, tourism. We're tourism states. So the intensity or increased intensity of storms, strains on energy supplies that come about as a result, affect our tourism industries. I guess Virginia tourism, by economic effect, is certainly in our top five industries that would be dependant, by any measure, might be number three or number four, and many of the Southern states also heavily rely on tourism and that can be dramatically affected by climate change. Water supplies. Again sea level increases threaten water supplies as the sea level rises. Salt water, saline water, moves further inland jeopardizing aquifers or fresh water sources. Storms' intensity effect water supplies that serve millions in our population and that is something that we obviously need to be very concerned about. Another issue is the affect on our natural resources of ag, forests, and fisheries. In Virginia, it is still the case that ag and forestry is still our number one industry by a long shot. If you look at Virginia, and I suspect that if you looked at many of the Southern states' economies, you know we are pushing innovation, we are pushing research, pushing manufacturing and all that. But if you look at the total affect ag and forestry, for many of us it's

still number one in terms of the size of the economy and obviously any climate change effects, changes in precipitation, changes in weather effect bugs and effect how bugs pollinate or don't pollinate and there is a whole series of natural effects that begin to effect our agriculture and forests. Wildfires, species composition, fisheries, birds, et cetera, so it is the most important industry in the South. And I know there are some folks here, I think in the audience in particular, who want to talk about the forestry effects, which are really important. It's based in forestry and it's a very important positive effect of what we do. This is a similarity in a risk profile that we all share.

Here is the other slide that I thought was kind of an "aha" moment and lack of a regional voice. Currently, currently the other three Governors' Associations in the United States and two of these -- Midwest and West have regional climate change initiatives underway. Now Matt has been an observer or at least kind of a close observer --

GOVERNOR BLUNT: Informal.

GOVERNOR KAIN: -- an informal observer of the Midwestern Governors' processes that he might want to share a little bit about. In the Northeast there is a REGI group, which came about as a result of the work of the -- dealing with acid rain. Where the Northeast is really working hard on greenhouse gas initiatives, and the reduction of greenhouse gas cap and trade, et cetera. The Midwestern states, many of them have banded together through the Governors' association to come up with a Midwestern specific climate change and energy strategy. And the Western Governors' are doing the same thing, a Western climate initiative. So right now, as you see, the part of the country that doesn't have a regional voice is the South. And as I mentioned at the outset, that is important not just because we want to make sure we are doing all we can in the region to do the right thing, but we know to a certainty that despite the failure of the Warner-Lieberman Bill, this thing isn't going away at the national level. I think most of you today know about Warner-Lieberman in the Senate as being laying down markers and setting up issues and challenges that will be addressed in the next administration. Whoever is the president, both presidential candidates have said this is an issue that's going to be top priority for them. Congress has said this is an issue that they're coming back. And so whatever we want to do on our own, we also want to make sure that the South is at the table with the status of hey, we are the producers for this country, and with some of the common risks we want to be at the table as the national debate is underway. So it is that lack of a regional voice that inspired me to try and make this a project that I would focus on next year.

Now the fact that we don't have a regional voice though, does not mean that the South isn't doing anything. I have a series of slides that are about Southern success stories and I'm going to show you and I'm going to go through this pretty quickly and then get to kind of a concluding slide and then open it up. I'm going to show you what Southern states are doing. They are doing a lot. And in fact, yesterday I ran through this with the Governors, there were five or six slides showing what states are doing and they were already saying, "Hey, Governor, you missed us. You have us as a blank on this one and we actually are doing something on it." So I am not going to swear to you complete accuracy of all of these slides but the point I am trying to make is, that Southern Governors and Southern states are not asleep at this. We are doing a lot. So that is the basic point of the next few. Okay. At least these states, SGA states, have climate change action plans already in place. I've got a very vigorous climate change team that came out of our energy plan. When we look at the energy plan that we produced, and realized that if we did everything in the plan, it would only get us halfway towards our greenhouse gas reduction target. We said, "Okay, we've got to get more creative." So I have a climate change action team that is giving us the advice about how we take it to the next level. But as you'll see, virtually all the states have

climate change action plans. Energy plans, everybody's got one. I think Virginia may have been one of the last to come to it. Everybody has energy plans or initiatives in multiple and some of the materials that are available here summarize what some of the states are doing in particular. It was a great SSEB meeting handout this morning that really had some detail about each states' initiatives. States are participating in one way or the other. In other regional climate change initiatives, maybe with just the state across the border or discussions through other associations, not throughout the whole Southern region. But every one of us in some way is participating in some regional initiative on this. Many of our states provide support for the bio-fuel industries, usually through tax incentives or other programs to support alternative fuels on the bio-fuels side. Many of our states have incentives for active private sector investment in wind turbine wave manufacturing, wind power projects and infrastructure, again often through incentives. Many states have them. I think this is one where Virginia should be white and West Virginia should be blue, so I've asked to correct that with Joe later. Again you will see the point that most states are heavily into this. Many of the Southern states are involved very significantly in clean coal to liquid manufacturing support or research at state universities and research institutions. Bringing business support of one kind or another to support the green economy.

I pointed out earlier that all of these industry sectors stand to benefit if we push more deeply into solar and wind. States are providing incentives for projects like that, clean energy or renewable fuel incentives. Virginia put a program in place a couple of years ago that provided a particular incentive for clean fuel development. And every state in the SGA is doing something in this way. The Louisville Power Company provided a mandate, where by in Virginia, we don't have mandates but we have incentives, greater rates of return. Our SCC will allow a greater rate of return to utilities that use renewable portfolios up to a certain percentages. Every state is working on that. So you can see that throughout the South there is a lot of action.

My call for a regional framework is not like we are at a starting line and nobody is moving. We are all moving. We are all trying to find the right answer and we are trying to find this and take advantage of the good policy and issues on our way to that goal. I have just one slide left and I think it's an important one here on renewable energy. States that have mandated RPS, renewable portfolio standards, produce a lot more renewable energy than those that don't. It would surprise you that the magnitude of the production of the RPS states compared to the non-RPS, I think, is instructive. So that just gives you an example of how these policy changes can really make a difference. These things that the Governors are doing really can transform what we are doing in trying to find a better energy future. So we get to the outcomes.

Here are a couple of slides at the end and then we will open it up for your questions and thoughts. The purpose for my year as SGA Chair will be to conduct a dialogue with the Southern Governors and the 16 states about energy sustainability and climate change strategy that is unique to the South, to make sure that we have a regional strategy that we can pursue because it's the right thing to do, but also so that we can have a strong voice in the national debate. Jim Connaughton spoke to us earlier today. When I first met him, I chanced upon him at an unrelated meeting at the White House about a year and a half ago and he said, "Boy, the South really should be represented in these Congressional discussions at the national level. Not that you aren't doing great things, but you are not represented as a region the way the other regions are." That was probably the germ of the idea that has brought us here today. We want to make sure we have a strong voice at the national level. We want it to be not just about greenhouse gas reduction, we want it to be about a broader look at a policy including funding. Some of the key priorities that we want to focus on are certainly energy independence or energy security. Joe is working

both in this body and the Southern States Energy Board. He did a declaration of American energy independence that most of us signed it. I don't know how many Governors signed it.

GOVERNOR MANCHIN: How many have we got all together?

SPEAKER: There are ten.

GOVERNOR MANCHIN: Ten.

GOVERNOR KAINE: Yes, ten out of 16 Governors in the Southern region and many more will sign it probably outside of this. But the notion of energy independence and energy security is very important. Conservation and efficiency are very, very important to the extent that we can perfect technologies and put regulations in place that enable us to use less and conserve more. That is going to be great for people's pocketbooks, but also great as we try to wrestle with energy supply issues. Clean technology development, across the board, whether it's alternative fuels, wind, solar, making last general coal has made coal a lot cleaner on nitrous oxide, sulfur oxide, and mercury. The next generation of coal investments is going to be trying to figure out a way to make coal ever cleaner on carbon dioxide. So we need to promote clean technology development. And finally, being focused on climate change adaptation. What are strategies that we can undertake at state levels to help mitigate this climate change risk? In Virginia, for example, one of our key environmental strategies is open space preservation. I set a goal within my single four-year term to preserve 400,000 acres of open space. Open space preservation is great because people love open space but it also helps you with water quality. It helps preserve historic assets and open space preservation, especially provides tree cover. Forestry does a great job in helping you with air quality. So that there are climate change adaptation strategies, even if as we sit today, we can say 100 percent of climate change is natural rather than manmade.

Knowing that it is occurring, we will still want to take the appropriate strategies to mitigate any risks from climate change. And so an adaptation strategy should be part of this regional effort. And that is the end of the slides. So let me just say -- the presentation. So let me just say the goal is for us to have, over the course of a year, having glommed my staff expertise from the SSE staff, as well as our own staffs, reaching out to any of these great resources that we have in the South, our universities, our private sector partners, to put together a framework, a set of policies, principles, so that we can be every bit as fore leaning in this area as the other regions are. We can be represented at the national level. We can be doing the right things in the region to protect our future and make sure we do it in the cleanest way possible. And with that, what I would like to do now is open it up to the Governors, maybe first, then I'm coming back to you. And then what I would like maybe to ask you in the audience, is knowing that we are going to be doing this, you are going to have some opportunities to participate along the way. What advice would you give us? What ideas would you share? What experiences do you have? What are the best practices that you know of? What are the resources that you know of that we should be taking advantage of as we are working through this challenge and tough issue? I will make one more comment before I open it up. I had a very good conversation about this Friday night with Governor Barbour, who was not able to stay until today. And he said, "This is so important, what we do." And he said, "Governor, it's really important that we do this outside of court of electoral politics between now and November." Recognizing that that could cause some things to go on, you know, sometimes to go one way and the rest to go one way. He said, "This is so important that we need to approach it in a very deliberate way, not making snap decisions but taking a full year to have a dialogue and come up with the regional principles." And I think that is something that all the Governors share. This is a -- obviously this is an issue that is really hot burner in the presidential race this year and that's great. Both candidates

are making this issue front and center and that's great. This is not about that. This is about, really a Southern strategy, that we can work on over time to make sure we come up with the best possible ideas and then use them to do the right thing for our country today. So with that I'll open it up and see if the Governors want to say a word or throw in ideas and then I will open it up to you. Governors.

GOVERNOR MANCHIN: Tim, if you could go back to your slide representing -- the slide that you had.

GOVERNOR KAINE: Yes.

GOVERNOR MANCHIN: That basically showed the propensity of what we use as far as the South -- how much oil we use, how much --

GOVERNOR KAINE: Yes. Let me just --

GOVERNOR MANCHIN: Just keep going.

GOVERNOR KAINE: And you want the South compared to the other regions?

GOVERNOR MANCHIN: Yeah. The other regions and compared, you know.

GOVERNOR KAINE: I know.

GOVERNOR MANCHIN: And the reason I want to bring this up is because when we start talking --

GOVERNOR KAINE: That's your slide.

GOVERNOR MANCHIN: That's it.

GOVERNOR KAINE: Yes.

GOVERNOR MANCHIN: That's it. Okay. When you look at the Southern Governors' states and you look at the others. You look at basically coal, nuclear, natural gas and hydro, renewables and others. And the nation, and we are getting into our national -- Tim I know the people from the administration from the respective departments are here. The thing that I have been saying all along is that you can tell that coal is 49, it's about the same as it is on the national level. And all that we've been saying is that if coal is going to be a factor for the next 20, 30, 40 years, if someone can tell us that coal is not, than why are we not getting the proportionate share of the research money to find new technologies to make it cleaner? We are all dependant upon it. If they keep escaping that thinking, oh, it's not good, it's not popular to talk about it and we start putting the bulk or the lion's share to renewables, which is what I have been saying, and it gives us the results that it's giving us, even on the Northeastern states -- let's say in five months if we get that to 10, 15, 20. It's just disproportionate to what we are going to depend on a right away, which is going to be nukes and coal. This basically supports what we have been talking about. You better put your money where your mind is if you are depending on continuing to compete on a global basis. And that's all we've asked Washington and asked both the national leaguers on both the republican and democrat side to say 50 billion dollars proportionally, 25 billion of that should go towards coal research. Another 10 or 15 billion in proportion towards renewables. And I don't know how to mix that to your all's standard.

GOVERNOR KAINÉ: And I think that that's a good point, and Joe and the other Governors and I have been in sessions where there has been a discussion about this very thing. We have a unique opportunity with what we call the base load, coal and crude natural gas. That's our base load and hydro, especially in the west. But we have a unique opportunity in all of these areas to invest in technology to make them better and better and better and more efficient and cleaner. You know, the advances in coal in the last generation in mercury, nitrous oxide, and sulfur dioxide emissions have been very significant. We've not been investing until recently in the carbon reduction and now we know that we need to do that. But there isn't any reason to believe that if we made advances in nitrous oxide, sulfur oxide, and mercury, that we can't make advances in carbon as well. But Joe's point is there needs to be investments and that's true.

GOVERNOR MANCHIN: We talked about is looking beyond the global picture. Coal. The amount of coal that is going to be used, is used now and is going to be used, in the future is growing proportionately faster than any other portion of energy. And with that, we could be a leader for the whole world in the global warming attack of environment changes going on around the globe. We've got to find the new technology to clean that up. The other thing, I don't know if you all recall, do you remember when ethanol was going to be the savior. We were going to make enough ethanol and it was going to save us all. And there was some talk at that time, maybe we better be careful about this, it might disrupt the food chain in the world and it came to light. Now what happened is, our good friend Chuck Goldburn, and our goal as a whole economy designer around the credits that are coming for the ethanol that continues to perpetuate that problem. And he said, "I'm going to change this so we can get it away from the food base." But he can't do it overnight. So we have to, you know, learn from our mistakes to make sure that we don't go down this road again. And --

GOVERNOR KAINÉ: One other thing, and then we'll move on --

GOVERNOR MANCHIN: Sure.

GOVERNOR KAINÉ: to Matt and Phil. To speak for renewables for a second, Congress just let wind and solar tax production credits expire. So if -- we want to make sure that we are investing in cleaner coal but clearly, clearly, a compatible need to be investing in alternative fuels as well. And here we are in the midst of this urgent debate about energy and production credits for wind and solar which are used, especially on the wind side, pretty significantly worldwide. And to just let them expire, with no rebuttal which is just one of those things that makes --

GOVERNOR MANCHIN: We were urging in the energy meeting -- we all agreed --

GOVERNOR KAINÉ: Yeah.

GOVERNOR MANCHIN: All Governors agreed to urge as quickly as possible to renew those credits.

GOVERNOR KAINÉ: Right.

GOVERNOR MANCHIN: But also to put a proportionate share of money towards coal and nuclear, too, which are really carrying the load. And the Governors seem to get it and they are willing to stand down on this with regard to what they are doing in their own regions in bio-fuels; Matt.

GOVERNOR BLUNT: I would like to start, if we can, and just give you a brief thumbnail sketch of where we are in Missouri on energy issues. I was elected Governor in 2004, and like Governor Kaine,

there wasn't much discussion of energy, actually very little. The only issue was actually bio-fuels. We have a big bio-fuels plant; we are bio-fuels producer in Missouri. I imposed a mandatory ten percent ethanol standard. So we actually today, have a statute so that ten percent of needs. So our gasoline contains ten percent ethanol, between eight and twenty. It takes about 580 million gallons of ethanol to do that. We produce today in Missouri about 250 millions of ethanol well on our way towards five or six hundred millions of gallons a year production. We actually think it works in our state. So we have, according to AAA, the cheapest gas in the country. Which means it's still far too expensive but it's the cheapest gas in the country. I think there are a lot of reasons for that; fuel tax, and good distribution systems with good pipelines. We also think that the ethanol standard contributes to that. So, other than bio-fuels though, there really wasn't much discussion. And we quickly grew to embrace innovation in the area of energy. We established a renewable portfolio standard where we slowly moved towards about 15 percent renewable energy used in our state by 2025.

We all kind of joke about stealing good ideas from one another. I had an example where we clearly stole a good idea from Governor Kaine. This year we established a tax holiday for E-star appliances which we are excited about. Those appliances have a tremendous impact on the household budget but also in reducing an individual household's carbon footprint. We are beginning to develop wind energy fairly quickly in Missouri. Particularly in Northwest Missouri where there is a lot of wind. Actually Rockport, Missouri, a small community in Northwest Missouri, became the first city in the United States that is entirely powered by wind energy. So we are proud of that example. I want to commend Governor Manchin and Governor Kaine for being realistic. You have to live in the real world. We're not going to replace all of our energy use with plant-based bio-fuels or with wind energy. Clean coal technology is imperative. We are building a new plant in Missouri, which is near Kansas City. It's one of the largest construction projects in the United States right now. It will dramatically increase the amount of energy available and but the same time have a great impact on the environment. It reduces those nitrous oxide and other harmful emissions and when states refuse to allow the construction of new clean coal plants, all they are really doing is guaranteeing that older, less clean, more polluting plants stay in online. So it's very important that we take an attitude of embracing clean coal technology and Governors need to step up like Governor Kaine and others have done to support those clean coal plants in your states. Plus try to lead by example, I know I know all the states are trying to do that with energy plans. Missouri has been, like most Southern states, a low cost state. This is something quite frankly we have not paid much attention to. Probably for households, for businesses, and certainly for government, as I took office I wanted to try and reduce our energy bill. I thought it would be a good way to save money and to be honest that's really what inspired it. I said let's try and reduce and be fiscally conservative. I wanted to try to get our bill down. We've done that. We are actually saving about 15 to 16 million dollars a year with energy conservation programs. What's really exciting is the impact it has on the environment. It has a tremendous -- it's been a tremendous step forward to reduce our states carbon footprint. So we think we're leading by example. It involves our partnerships we are using our landfills, methane gas from landfills is heating our prisons and providing power for our prison laundries. And really just trying to make our building themselves more energy efficient. It's good for taxpayers and it's good for the environment. I think it's such a good example for the rest of the state. This is a great issue to embrace for discussion. It's really -- I think Governor Kaine has hit upon an important topic. We are in an energy crisis and it's important that we address and fix the energy crisis.

GOVERNOR KAINE: Thank you. Thank you, Governor. Governor Bredesen.

GOVERNOR BREDESEN: I want to say -- I also say, this is more information than a question. The 12.8 percent other, what is that?

GOVERNOR KAINE: In the SGA states, it's largely oil. Because Puerto Rico and the USVI are almost completely oil. They don't have other sources. So if you take them out and you just use the SGA mainland states, that number drops pretty low.

GOVERNOR BREDESEN: There were a couple of things I want to say. You talked earlier about the expiration of tax credits. All of us, I do believe, as Governors who want to see that extended. I also think that whatever is done, not the marginal extension, but something that is long term enough so that you can contemplate anything. By their very nature being kept for investment have a stable environment to work in addition to what is going to be happening in that area this notion of doing something for three, or four, five, or seven years and then hoping that is going to change the world. The last thing I would just say, I hope that we look at this not only in terms of the things we have to do to do our part to help with climate change. Opportunity for the states in the South. There is going to be an incredible demand for technology as the world works toward much higher green energy efficiency and I think keeping in mind the fact that there is also an enormous opportunity. Politically the most difficult thing about this is that it is always talked about in context of who's going to have to give up.

GOVERNOR MANCHIN: Right.

GOVERNOR BREDESEN: Everything is going to have to cost more. You're going to have to give up your big car. You're going to have to give up this and that also have some potentially enormous compensating benefits for them in that

GOVERNOR KAINE: Absolutely Governor. And I think that the first point that Phil made about the long-term issue of investments -- I was speaking recently this with someone who is connected with the European market who does a lot of investments in alternative fuels. And they do heavy investments in Europe and Asia but not in North American because they feel like North America, right now, is 50 different states sets of rules and a federal policy that is hard to predict. And until there is a stable long-term set of rules that will enable them to figure out the risk to their investments they're just going to kind of stay out of the market. So there is a lot of global capitol that will come in once the long-term rules are in place. So your point about not, at the federal level, looking for policies that are implemented in short-term is very, very important. Let me do this. Let me just open it up. And our questions will be -- there are two mics in each aisle -- is as we are working on this through the course of the year, if you have resources to suggest, ideas to suggest, experiences best practices, what would you -- what would you tell us so that we can do the most practical job in this. I will just let folks come to the mics.

MR. NEMETH: Well, governor, thank you for the opportunity. This certainly is exciting and we at the Southern States Energy Board look forward to working with you over the next year on it. I think one of the things that we have said a lot about, Governor Manchin has said over the last couple of years, is that the states need to play to their strengths. Now I think that is really open in the Southern states as you point out but so many states are producers, energy producers. We have new technologies coming in. I know just in Georgia, where we reside, we have a new solar energy producer that is coming in to develop the technology. But then I look around and see that 75 percent of that technology will be shipped overseas. I mean, that's what they're expecting. So we need to, as Governor Bredesen said, we need to grab more of this stuff at home. We need to be looking at what it is that we can do to further extend and expand our portfolios and diversify our energy sources and our technologies. So I would just

say on behalf of our organization, we look forward to working with you on this significant issue. We think this is a tremendous opportunity for the region.

GOVERNOR KAINE: I think also segue into a point that Matt made earlier, which is if we want to get cleaner, we need to invest in cleaner. If we don't invest in cleaner than we just use older technologies that are dirtier. Our clean investments then, are great opportunities to sell to the rest of the world. The number of coal plants that are going to be built in India, China, Mexico, and other nations are sizable. Europe is going back to coal plants in some instances. The better technology that we can come up with on coal, we are not only helping our own situation, it will be a great economic development opportunity and will help with the greenhouse gas issue locally as well. Yes. And please, introduce yourselves when you ask a question.

MR. HOLMAN: Thank you; I am Bill Holman with the Nicholas Institute regarding policy solutions at Duke University. But this issue we -- the just to volunteer the resources of Duke and I believe the environment is a regional issue we all work in this area. I'm kind of at war with that. I think that one of the ways that people most will readily feel the effects of climate changes is going to be water quantity and quality issues. And states issue that went out so much in share ground water sources, we share rivers, we share lines and I think on regional thinking we are together on the adaptation strategy that be a will benefit. Duke University will be pleased to work with the Southern Governors' Association on that set of issues. We also have a strong group working on offsets. You are exactly right, for the great basic good, farming practices, the forestry practices, we want to protect our quality of our reservoir. So there are some real opportunities for our private land owners here just for a big reference what counts and how to verify it and get them to the market. We're looking forward to it.

GOVERNOR KAINE: We look forward to having the benefit of your guys expertise and help with this.

MR. ZUPKO: I am Mike Zupko. I represent the Southern Group of State Foresters and State Forestry Agencies.

GOVERNOR KAINE: I appreciate that agency.

MR. ZUPKO: I would -- first some of the benefits that forests provide both for the carbon sequestration, irrigation side of things as well as the opportunity to definite hazard to the plant. The biggest challenge, that we have just touched, is conserving these working forests. So I mentioned to Governor Kaine yesterday the opportunity for a regional initiative to help conserve and protect working forests lands. I just want to offer that as an opportunity because even if we do nothing for incentives in the planting and growing of trees, we are still losing lands to other uses. I think we can work on some strategies regionally to alter that on a large scale. We have an opportunity to protect.

GOVERNOR KAINE: Mike, stay right there, and maybe you can give us some date in order of magnitude. You know, we hear about deforestation in the Amazon basin and that was a challenge and greenhouse gas and climate. But we see deforestation, you know, on our own shores. In Virginia, we have been reforesting since about 1900. There are more acres of forest in Virginia now than there was in 1900. But we went down and then we started to reforest and now we are kind of hitting a peak, and starting to deforest. Talk a little bit about the challenges across the South in this issue of loss of forest lands.

MR. ZUPKO: Across the region we have maintained a pretty stable amount of forest lands, like each of you know. But over the past 100 years, although over the past 30 or 40 years, that number has started to reduce with development and with some other issues that you have there, there are positives but there are challenges. Shifting from the ability to grow timber on an ongoing basis with some of the benefits as well as the ability for it to have the other benefits with water, clean water, in areas. So I think one of the issues that we are looking at is pretty plausible because a lot of things are happening in each one of your states which is fantastic when you mention, you know, conserving, and more investing over the next few years. What we want to do at regional levels on a large scale 20 million acres and I think we are able to help in leveraging the corporate partnerships, large scale corporate partnerships, as opposed to just hanging on a small scale.

GOVERNOR KAINÉ: Great. Well, we look forward to partnering with you on the forest issues. Because you pay very much -- we are pointing the same direction.

GOVERNOR BLUNT: If I may?

GOVERNOR KAINÉ: Sure, Matt.

GOVERNOR BLUNT: In Missouri, I always had the understanding. We've done another study about that reforestation issue since that same 1900 benchmark. So I'd be glad to see any individual data that you have referring to any individual state, particularly for Missouri that would demonstrate the magnitude of the problem.

MR. ZUPKO: We'd be happy to provide that.

GOVERNOR KAINÉ: I'm going to ask if maybe my Policy Chief can correct, I am pulling this data out of my head. In Virginia, about 25 percent of the development of land in Virginia that has occurred since Jamestown has happened in the last 15 years. And so you can see, when you hit this peak where we really start to bring forests back is as folks move from farming communities, rural communities, to cities so that you would have more forests which was great. But the development pressures in Virginia now are now making that difficult and you will start see an impact on the climate, land use patterns and transportation. We all talk about greenhouse gasses, which is a utilities problem. You know 30 to 40 percent of greenhouse gas emissions in Virginia, and probably in most states are from the transportation sector. And it's really important that that be part of the solution and it's just not all manufacturing facilities and utilities.

MR. BULLOCK: George Bullock with the Southern Company. Just a few additions that, I think, might enhance your slides.

GOVERNOR KAINÉ: Great.

MR. BULLOCK: There is some good maps out of DOE, Energy Information Administration, on wind and where it is most important or least important. Solar and also on land, it's available for cellulosic ethanol. And some of the Southern states, particularly in the Southeast half have virtually no wind capacity. So that's one of the reasons that portfolio standards may differ from various states and certainly the Southeast differ, we are not Arizona and Mexico on the solar but I think would help. The other thing is that as far as the slide up on there on rates, virtually all, if not all, Southern states are below the national average. And the slide showing the differences between what the rates are for electric in the Northeast is dramatically different from what it is in the South. Also the 2004 slide on

C02 emissions needs to be updated. That's seriously dated. I think most observers put China ahead of the United States on C02 emissions if not late last year, early this year. But in all, as you well know, the ethnic segment is a very complex subject, but the South is truly different than the other regions. When we talked about wind and solar, we really need to talk more about the development of the cellulosic ethanol, not corn based ethanol, but the South has forest waste products, switch grass, et cetera, and those things need to be emphasized when we talk about the Southern demands.

GOVERNOR KAINE: Great. Very good points. Very good points. I think the point about rates in the South being relatively low to other regions is a really important one to just underline. You know, if we try to come up with a strategy, one of the things we want to make sure that the strategy entails is an energy that is reliable, that is a reliable source and relatively low cost. All costs are increasing in this area in this demand. It has been an enormous benefit to the South that our costs have been relatively low helping citizens, helping people on fixed incomes, and good for our business community. And so we can come up with a strategy that tries to maintain this position we have of relatively low cost, that is, obviously, going to be great. As Matt pointed out though, low cost has a flip side to it which is low cost tends to mean that we haven't maybe focused as much on conservation and efficiency as we need to. So maintaining relative low cost while really pushing the conservation and efficiency measures is a little bit of a conundrum but I guess gradually raises costs would make us all more conservative.

GOVERNOR BLUNT: I look at it as an opportunity. We've not taken a lot of steps to be more energy sufficient. So there is a lot of low hanging fruit. Certainly in my state there is a lot of low hanging fruit on energy efficiency and I would suspect that that is the case across the South.

GOVERNOR BREDESEN: I guess, like we --I wish I had brought the information with me for this. But we were doing some work on energy efficiency and the per capita energy use across the South is dramatically higher than the rest of the nation. I think in part just because it was so low cost for so long certainly TBA on that was that. The first house that I ever bought in Ashville had just electric. You just turned it on the stat and it was very, very inefficient. I also mentioned on cellulosic ethanol we put a significant marker down. I guess it was last year we put about seven million dollars into the University of Tennessee at the Oak Ridge Facility to develop cellulosic ethanol. Because a lot of the grain based ethanol has, as you know, a very low energy median. Cellulosic ethanol is much higher and also has a lot of potential for improvement in development with that. We just signed a joint venture with DuPont to develop that technology. Again in the sense of trying to economic and other reasons for that.

GOVERNOR KAINE: And I think the point about the South has such good resources, and you know your biomass and your forestry products, switch grass, or other non-food plants that we've used make that really possible. Yes, Charlie.

MR. SORRELLS: Charlie Sorrells with Eastman Chemical Company. We've been gasifying coal and making chemicals for coal, clean coal, since 1983. I will mention a couple of things that may not be as obvious as we are working on new bio-fuels. We've announced one already and we are actively seeking others. One is logistics. That used to be a consideration, now it's a driver. It's determining where our sites are located. Rail capacity, getting the bulk of raw materials and finished product out is a real problem. So all of a sudden, that's an important part of the equation and ideally you would put gas fires on top of the coal mines and eliminate part of that equation. The second thing is sequestration. We announced Friday in the gulf coast, primarily because of the role to take C02 and use it for enhanced oil and gas recovery. You can only have so many facilities with so much C02 in the gulf coast. Ideally, it needs to be where the coal is. So anything the Southeast can do to determine how to do that, the projects

will come. And then the third point I would like to make is that right now the dynamics of regulation and incentives do not look at the total picture. They are primarily driven by cost per kilowatt to get the lowest cost you can. But if you use some of the off-take to make chemicals and fertilizer and these other things, than you can justify more expense and less energy efficient ways of creating energy. One of the reasons that utilities don't particularly like coal gasification is because it takes more energy to make a kilowatt. So somehow we should look at this whole picture and consider these other dynamics.

GOVERNOR KAINÉ: That's a good point. One of the great advances of the last decade or so, I think, and I'm not an expert in this, has been the whole methane recovery operations. We were venting methane into the atmosphere and now we are using it to produce gas and energy. That has a much less negative effect in terms of the CO₂ and it creates an economic value in terms of producing energy. So just like the nitrous oxide, sulfur oxide, mercury has really come down in coal. Capturing coal with methane adhesion in range in production have a positive CO₂. There are just all kinds promise for us here. Please.

MR. MONAST: Jonas Monast. I am also with Duke University and I work with the budget on the Climate Change Policy Partnership. We work with members of the private sector to help identify the questions best that are still outstanding on their policy on energy answer but we get to it by conferencing on the policy. What we are talking about today one of the biggest products is actually for carbon capture sort of modeling. Which power plants are likely to retrofit, looking at the very most likely crane construction into account, population density, property values, figuring out the federal role where you know the federal government could come in and build trump line to the most likely sequestration sites and that would mean a resource. Also I want to commend the Governors for taking this issue on. There is a true hunger and need on Capitol Hill to hear from the states: A - what resources you need and B - what roles you can play to help address climate change. I think that staffers on the Hill have been told, wait until you hear from the states before you work on this policy. And that really needs to grow up from the ground. We at Duke are actually right now putting together a resource center to simply focus on the Southern states on climate change issues that all policy makers and also to help other stakeholders understand policy implications and understand in facing the economic choices that we are going to make. I think that a lot of time the voting schedule when they get -- ethanol is a great example that the Governor of Missouri brought up. The voting schedule, they get to have policy analysis. What we are trying to do is recognize that we have an opportunity now to answer a lot of questions before Congress actually votes on the next group whether it whatever available the policy issues. So we want to offer that as a resource.

GOVERNOR KAINÉ: And just quickly said, climate change partnership is that a project at Duke or are you a participant in a partnership that was brought.

MR. MONAST: It's a private effort at the Nicholas Institute at Duke and also with -- we have three corporate partners right now. But there are focused on the Southeast but also nationally we would participate.

GOVERNOR KAINÉ: Please, the SGA staff is right in back. Just make sure that if you have resources or want to, you know, lend your thoughts to this effort, make sure that they have your contact information.

MR. MONAST: That's fine.

GOVERNOR KAINE: Thank you.

MR. McGAREY: This is Mike McGarey with the Nuclear Energy Institute and I think it's significant for this group to note that for the first time in 30 that utilities or consortia are submitting for the first applications to build new nuclear plants in this country. To date, there have been 18 new plant submittals to the NRC in the past 10 months and 16 originate from the South from the SSEB or Southern Governors' region including most recently an application for a new plant in Governor Blunt's state, Missouri. And it's significant to note that we've got a status report that was distributed to this conference that shows how much activity state legislators and Governors and regulatory commissioners have been doing at the state level to encourage that type of nuclear plant development activity. And I just applaud the Southern Governors' because they understand that any talk about energy security and affordability and reliability and climate change activity and progress is absolutely dependant on maintaining at least a 20 percent share of the national average of the contribution of eclectic generation that electric makes. So the nuclear industry applauds the leadership of the Southern Governors' and we'll going to look for more of it in the future and we appreciate it very much.

GOVERNOR KAINE: Great. Thank you, Mike. Bill.

MR. MURRAY: Governor, Bill Murray with Dominion. Thank you for your leadership on this issue. I got see your energy plan come out, that was a year ago, and I don't think I've gone to a meeting since where somebody hasn't pulled some facts from that plan. We've been involved at Dominion in both REGI and the Midwest's efforts and I do notice that REGI is a little more utility focused pretty much just focused on our industry. The Midwest discussions are tending to be more of a sort of economy-wide. I was curious of which was you were sort of thinking in terms of your own initiative?

GOVERNOR KAINE: Well, I would hope and I haven't' asked the Governors specifically about this, but I would hope that it would be a economy-wide. Because, again, in Virginia, and I suspect that it is similar in most of our states, the transportation sector is such a huge part of that and again they are often not so well represented in our SGA meetings or the SSEB meetings. They are not energy producers. When you are trying to deal with a climate greenhouse gas issues you have got to have so input, especially by transportation. That involves land use patterns, public transit investments and a whole series of things, but I would really hope that we would look at it economy-wide because if we don't we are just going to you know just deal with one component rather than the whole change. Yes, Joe.

GOVERNOR MANCHIN: If I may, you are probably talking transmission lines, correct?

GOVERNOR KAINE: Yes.

GOVERNOR MANCHIN: Because it's becoming -- transmission is intricate for all of us to be energy independent, if you will, and it's becoming more and more critical. I think, in my state, it will be in Allegheny and such major parts of that in there. I think it's something that's part of the mix. I am hoping that we are taking that as seriously as we can because that is a real challenge, I'll tell you. And also we are charging, if you will, with new technology the existing ones that might take the demand off total construction of new. It's very, very, entwined in our system especially in the Northeast right now. Most of us from the South provide the reliability to the Northeast and if we're -- if we don't make it happen there are going to some serious problems starting -- maybe as quickly as 2011.

GOVERNOR BLUNT: Missouri is the one state that's a member of the Midwest Governors' Association and the Southern Governors' Association and there was a Midwest accord. There were a number of proponents. There were a number of Governors happily participating. And one would be some transmission cooperation and enhancement that actually provides good guidance. And as the SGA moves forward, ours is not a part of the Regional Cap-and-Trade System the Midwest Governors' Association, as such was creative. In fact, some of the transmission work was pretty productive.

GOVERNOR KAINÉ: Please.

MS. BARRANCO: Good morning, Governors. I am Nicole Barranco with Toyota. I want to let you guys know that Toyota spends over a million dollars a day, a day, on research and development. So we are indeed committed to alternative fuel cell sources and alternative technologies. But that being said, we are a lot like the firm, the European you mentioned Governor Kaine, it's very difficult for us to work in an uncertain environment. You know with a company like ours that has a nationwide distribution and sales system, it's hard for us to comply with one state's standard and get the vehicles to one state and do these different averages on a state-by-state basis. And also, with the -- I made a note here in case I forgot. Oh, our lead-time. Right now we are working on vehicles for model year 2012 and 2013. So it's very difficult for us to switch on a dime. You know, so just -- I am imploring you to keep all these things in mind and I appreciate your support in the past, all of your support. Thank you.

GOVERNOR KAINÉ: Nicole, I think all of us definitely share the notion that if we do the right thing regionally that we can be a very effective voice in encouraging federal action. Because you know, we do region things and then the Toyotas and other in the world go to Congress and say c'mon guys you've got to do something. So there is some sort of degree of "strategy" in all of this as well. Which is, regional action can promote the national framework which is ultimately the right answer. So thanks for those comments. And you're right, so phase-ins are important. Don't start things immediately phase-in because of the lead-time that's required. Yes, please.

MS. DIGGINS: My name is Molly Diggins and I am the State Director of the North Carolina Sierra Club. And I would like to commend you for your leadership and moving forward and attempting, again, a regional voice for the Southeast. It is sorely needed. When states don't speak for themselves, other interests speak on their behalves. I would like to ask you what you think states can do to best position themselves to benefit in a clean energy economy that's coming after Congress passes the Cap-and-Trade legislation. We know that, of course, it's legislation before Congress that will have a significant economic impact. What can states be doing to ensure they are in the best position possible to thrive in the new clean energy economy? Thank you.

GOVERNOR KAINÉ: Yeah. I will open that up for all of us to answer. My you know kind of just first thought to your question is, what we do to put money into our research institutions and alternative fuel development. It's probably the thing that would have the biggest bang for the buck. So promoting innovation and research to focus on cleanliness and alternative fuels is probably the best thing we can do to position ourselves for you know what ever the ultimate federal action will be. And that is something where we are getting a start on that in Virginia, I was envious when I heard Phil talk about the seven million for the cellulosic ethanol at his institution. Now I'll want to go back now and be better on those kinds of investments. But I think that is a really important strategy for states to push with these great intuitions that we have. All of us.

GOVERNOR MANCHIN: I just want to say very quickly is what we better do as leaders of our respective states is, go back and explain to our constituents that their prices are going to go up. And with that Cap-and-Trade, I can guarantee you, we are a load-producing region. We produce for the nation. We are going to get the blame, state by state, if we don't explain how this is coming down and people don't understand there is an inherent cost increase with this. And I intend to make that very clear to my people in West Virginia.

GOVERNOR KAINE: Other thoughts. I also think we should take advantage of our role at the bully pulpit to talk to our citizens about strategies. You know, people can make fun of change your light bulbs, or inflate your tires, as if that's really nothing, but we can all take a lot of individual actions that really can help us be much more energy efficient. Maybe because of low costs that hasn't been so necessary, but we need to look at education ways to tell our businesses, tell our government agencies, and when that's said, tell individuals and residents how they can conserve and be more efficient and that is a real opportunity. Go ahead, please. I'll come here and then I'll start again.

MS. LOOMIS: Thank you. I am Ann Loomis from Dominion and Governor, I'm going to ask you all to keep a few thoughts in mind as you work to develop your mutual strategy. And you had mentioned the Lieberman-Warner Bill and I think the lesson we can take away from that today were the challenges that any federal legislation rests on cost to consumers and the complexity of the program. The cost to the consumers, I think Governor Manchin commented on, the comments are really contingent upon combining the next generation of strategies with technology. And that is what I think will defray the cost to consumers. And, of course, the complexity of the program. And I urge you to consider that those who are responsible for contributing to the problem are those that receive the resources to contribute to the solutions to the problems.

GOVERNOR KAINE: Thanks, Ann.

MS. LOOMIS: Thank you.

GOVERNOR KAINE: Ann, as many of you know, is the Chief of Staff to Senator Warner and has been on the staff for many years and is very knowledgeable in this area. I am really glad that you are here to share you those thoughts. Please.

MS. CORDNER: Yes. My name is Christine Cordner. I'm with Platts which is an energy news outlet. And I have some questions for you today specifically to elaborate on when this proposal would be out. I'm presuming at next year's meeting at Williamsburg at the end of August would be the date and if so that would obviously be well after Congress is done for '09. So consequently --

GOVERNOR KAINE: Right.

MS. CORDNER: -- it might be more helpful -- it might helpful, for any timely debate this year.

GOVERNOR KAINE: Right.

MS. CORDNER: And then following that, Cap-and Trade wasn't mentioned and I was wondering if you could specifically, elaborate as to why, if that's one of the ideas that you will be considering, not only maybe as a Southern regional program, but maybe also joining other regionals, in terms of NGA?

GOVERNOR KAINÉ: Sure. Good point on the timing. The thought would be over the course of the year, we would work in a methodical way with staffs and resources, some of those who have come to the room today and offered their help, and we would try to forge a consensus around a strategy as quickly as we can and that there would be some points along the way where we would be sharing that publicly with Governors and others to get a little reality check and get ideas from both. So, hopefully, we will see how far we can get in a year. But obviously, if the debate picks up in Congress soon after the new Congress comes in, we expect it would, at least having had a good six months to really wrestle with these issues among the Southern states. We need a position to be at the table. Particular strategies, I would say that everything is on the table about being considered. We've all been talking about pluses and minuses. The idea for this is not to begin by saying here is what the end point is, but to begin the dialogue and then find that end point. So you know the Cap-and-Trade versus other strategies that will emerge from the discussion of the Governors but everything should be at the table.

MS. CORDNER: Just to clarify, would you say that you would possibly encompass other regionals and joining forces for instance with other coal --

GOVERNOR KAINÉ: I would, again, say that everything should be on the table. I think we all feel that there is a virtue in uniformity in a national way and a national policy respects the unique position of the South. But again, it should all be on the table for discussion.

MS. CORDNER: Thank you.

GOVERNOR KAINÉ: Please.

MR. ADKINS: Governor, I'm Rocky Adkins.

GOVERNOR KAINÉ: What it is -- I'm probably going to take two more. Jim, do you want to come up after - I'll let you be the last one? Please, Rocky, go ahead.

MR. ADKINS: Governor, I'm Rocky Adkins, the Majority Floor Leader from the Kentucky House of Representatives. It's good to be here with you. I just wanted to step up and thank you and all the Governors for really coming up with a strategy and a plan that was at the table, thank you all for that. I also want to offer our help from the Commonwealth of Kentucky. We look forward to working with you. We believe in Kentucky that if you pass some very comprehensive and balanced energy legislation in some areas that you've touched on today --one of those areas is the area of consent to drive in traffic. New energy technologies are the future of Kentucky. Invest their money there to build their projects there and then energy for today was in love with it, the renewable energy, wind, solar, and hydro, bio-fuels. We make that an incentive area. We also brought footprint -- renewable energy, energy efficiency, conservation areas, with our last legislation that we passed. We believe that is going to be helpful as we put together our portfolio. But the area I'm more excited about is really not even been put forth in this legislation, is the opportunity to expand the research and development in Kentucky. The point I offer to you is this, we've got a couple of places in Kentucky, more than just the couple that I want to mention to you, that I think will be very critical as you move forward with your plan. The center for applied human research at the University of Kentucky has done some extraordinary work in the area of gasification technology to refine and make those technologies better. We are also doing extraordinary work in carbon capture technology. We try to capture that garbage and actually hold that. And then the Kentucky geological survey, we funded them several million dollars to start their work and the demonstration projects and we're expecting them to take that carbon and sequester and being able to

find other applications for the use of carbon. So I want to offer the help of the Center for Applied Research at the University of Kentucky. I want to go a step further. I agree with Governor Manchin in that we've got to have a balanced approach, a comprehensive approach, you've got to talk about usage, you've got to talk about energy efficiency and conservation. Speed energy. The Speed Engineering School at the University of Louisville is doing some outstanding work in renewable energy technology. So as you move forward, I want you to know the Commonwealth of Kentucky is here, we are expressing to be a part of this and we want to help in every way we can because this legislation that we are talking about when we are talking about the South, Governor, is an economic development opportunity for all of us. We know that. We want to be partners as we move forward in this because the area of research and development is pretty exciting as an incoming fuel, as well that goes along with all those major investments. I just wanted to step up today. Our Governor had to go back last night. Our Secretary of our new Energy and Environment Cabinet was here, Lynn Peters. We are excited to have him on board. He is an amazing guy. So I just wanted to step up and say, we're here to help. Let us know what we can do.

GOVERNOR KAINE: Thanks, Rocky. Governor Beshear, in the Governors' only discussion yesterday was real active as we were talking about this issue. So I know that from the Executive and Legislative branches you guys are bringing a lot of resources and, of course, I appreciate and need that. In general, I will let you have the final comment and then I will turn it back over to Joe to say a word as we conclude. Jim.

MR. CONNAUGHTON: Thank you, Governor. Jim Connaughton, Chairman of the White Council on Environmental quality. I just wanted to approach them, the two I's: incentives, infrastructure. The incentive piece is not one that -- President Bush just sent a letter to Congress and Governor Bredesen saying exactly what he just said. We need to consolidate our incentives, carbon weight them, make them technology neutral and expand them for the long term. You can't get a capitol investment in the main back stream unless there is certainty. But it will require the Governors taking the next step and tell the members of Congress. They just like revisiting it every two years. It's politically popular to bring it up every two years. We can't survive that any longer. We are buying too many windmills from Germany in a year. We ask them to stabilize the incentives. We're going to need that. So I hope that will focus on the manufacturing side as well as the delivery side. I think that is important. On infrastructure, I have had an occasion to come to a number of regional Governors meetings over the last eight years. Transmission always comes up. Infrastructure for pipelines always comes up. Using the community colleges and others to fill out the workforce for the new generation of workers for nuclear or for the very advanced coal plants, for the very sophisticated pieces of construction. I have yet to see a Governors' group really take it on and deliver an outlet. I've seen each of them produce really interesting plans. But on the infrastructure piece, I have yet to see a regional Governors group producing real regional outlet on essential infrastructure roadblocks. I would love to be able to work with you on the pipelines. I have left with as a good handle on what comes next to help you achieve that success instead of still slowly backing.

GOVERNOR KAINE: Very, very important. Thank you. Thank you for that point, Jim. I am going to say a word of thanks. The presentation that I put together that I did earlier was a lot of work by the SGA staff and I want to thank them and my own staff. I know we shopped it around to the various other Governors and got a lot of good ideas but it was truly a group project and I want to thank the staffers who participated in it. I think that will be it. I want to turn it back over to our host. I am the Chair now, but I'm going to turn it back over to our host so he can say a word as we adjourn. Governor.

GOVERNOR MANCHIN: Thank you, Tim. As you can see, it's going to be an exciting year at the SGA, but most importantly, exciting for all of you. I think what Tim basically has done is, he said, listen be part of this, we don't have all the answers, we're looking for them and we're willing to do something in the South. He wants all of you to engage and be part of this and this dialogue going on. I truly believe that we can fuel the entire nation right here with our sixteen and one territory. So you weren't really wrong. We have sixteen and the territory of the Virgin Islands. So we are willing to move forward, Tim, under your leadership and I think it's going to be exciting. Again, let me just say thank you for coming. I hope you had a good time and enjoyed yourself. Basically, please come back and God bless.

(END)