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January 24, 2020

VIA E-FILING
Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, MN 55101-2147

Re: In the Matter of Establishing an Updated 2020 Estimate of the Costs of Future Carbon Dioxide Regulation on Electricity Generation under Minn. Stat. § 216H.06
Docket Nos. E999/CI-07-1199, E999/DI-19-406

Dear Mr. Wolf;

Minnesota Power respectfully submits to the Minnesota Public Utilities Commission these comments in response to the Minnesota Pollution Control Agency and Minnesota Department of Commerce's request for comments regarding the range of cost estimates for the future cost of carbon dioxide (CO2) regulation on electricity generation.

If you have any questions regarding these comments, you may reach me at 218-355-3602 or avang@mnpower.com.

Yours truly,

Ana Vang
Public Policy Advisor

AMV:th
Attach.

STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

In the Matter of Establishing an Updated 2020 Estimate of the Costs of Future Carbon Dioxide Regulation on Electricity Generation Under Minn. Stat. § 216H.06	Docket Nos. E999/C1-07-1199 E999/DI-19-406

I. INTRODUCTION

Minnesota Power (or "the Company") submits these comments in response to the Minnesota Pollution Control Agency and Minnesota Department of Commerce's ("Agencies") December 20, 2019, request for comments regarding the range of cost estimates for the future cost of carbon dioxide (CO_2) regulation on electricity generation. The Agencies recommendation to the Minnesota Public Utilities Commission ("Commission"), is to "continue to use the existing range of likely costs of CO_2 regulation at $5 to $25 per ton of CO_2 emitted, to be used in electric resource acquisition proceedings for planning year 2025 and beyond," and that "there is not sufficient objective basis for revising the current cost range of $5 to $25 per ton." The Request identified the topics open for comment. Minnesota Power's responses to those comments are outlined below.

- **Should the Commission adopt the Agencies' recommended CO2 regulatory cost range?**
  Minnesota Power does not object to the Agencies' recommended CO2 regulatory cost range of $5 to $25 per ton of CO2 emitted to be used in electric resource acquisition proceedings for planning year 2025 and beyond.

- **If not, what range should the Commission establish for CO2 regulatory costs, and when should these costs begin to apply?**
  See above.

- **Should the basis for likely CO2 costs contemplate a specific type of CO2 regulation (e.g. a direct tax or cap and trade)? If the basis for CO2 regulatory costs is a cap and trade program, should and/or how past CO2 reductions (i.e. a baseline year) be taken into account?**

  The existing range of $5 to $25 per ton of CO2 emitted was designed to be representative of a variety of types of regulation. Therefore, the basis for likely CO2 costs should not contemplate specific types of regulation like a direct tax or cap and trade.

- **Why is it reasonable to base the range of likely CO2 costs on programs in which Minnesota does not participate?**

  Since Minnesota does not have proposed or other well defined carbon programs, relying on programs in other states and regions to inform state planning is not prudent. Differences in power supply mix and regional availability of renewables impacts the compliance cost to reduce carbon among states and regions.

  Minnesota Power contracts with third-party vendor forecasting services to purchase independent power market forecasts for resource planning purposes. These third-party forecasts include carbon compliance costs for California/Ontario and the RGGI states, but don't include one specific to Minnesota or the upper Midwest since a specific carbon program doesn't exist for the State or region. However, the third-party forecasts due include a national carbon reduction program which includes Minnesota. The expected costs are within the $5 to $25 range proposed by the Agencies although the timing of the program is after the 2025 start.

- **Minn. Stat. § 216H.06 requires the Commission to estimate the costs "of future carbon dioxide regulation:"**
  - **Is the correct interpretation of the statute that the CO2 values should reflect a net cost of complying with a particular regulation (i.e. the cost**

of reducing aggregate emissions to the target level of a hypothetical policy), or that the values should reflect the cost/price of an incremental unit of CO2?

- **In general, please discuss why an allowance price should correspond to the net cost of CO2 regulation. For example, do allowance prices in RGGI reflect the net costs to states participating in that program?**

The existing range of the future costs of CO2 regulation was designed to be representative of a variety of situations, including additional regulation, allowance prices, or the cost of an incremental unit of CO2. The Minnesota Statute requires the Commission to determine a range of likely carbon regulation in the state but does not specify that is should be tied to a single policy design. Picking a range, as proposed by the Agency here, is reasonable and within the confines of Statute.

- **For parties who perform capacity expansion modeling, please discuss how CO2 regulatory costs are modeled differently, if at all, than environmental externalities. Please discuss how different methods of modeling CO2 regulatory costs and environmental externalities might affect the ultimate selection of least-cost expansion plans.**

The Commission laid out a minimum of five scenarios that utilities must study when bringing forward capacity expansion modeling in Docket E-999/DI-17-53. Of these five scenarios, four contain some form of carbon costs. These four scenarios all utilize the environmental cost of carbon (externality value of carbon) determined by the Commission in Docket E-999/CI-14-643. The externality value of carbon is used in all years up and until a regulatory cost of carbon starts in our capacity expansion modeling.

Minnesota Power's position is that there is no reason for the Commission to re-assess its decision to apply only the regulatory cost value or the externality value, but not both, to emissions in a given planning year or using the higher of the two values. The current legislation provides a mechanism for accounting for the impact of CO2 emissions when making resource planning decisions. Externality values *will be applied until such time as a CO2 regulation is implemented. Once a CO2 regulation is implemented, it will account for the CO2 regulatory cost imposed on utilities when making resource planning decisions. Nothing has occurred that would warrant duplicate accounting through application of a regulatory cost value and an externality value for the impact of CO2 emissions in the resource planning process. Minnesota Power believes that the regulatory cost value and externality values should be used to inform a resource decision, but a resource decision should not be made based solely on the regulatory cost value and externality values. Customer rate impacts also need to be taken into consideration when making a resource planning decision.*

In summary, Minnesota Power recommends approval of the Agencies' recommended values and the starting date of 2025, but continues to request flexibility in determining the appropriate value range to be used in a base scenario. Minnesota Power appreciates the opportunity to provided comments in this Docket.

Sincerely,

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STATE OF MINNESOTA	)	AFFIDAVIT OF SERVICE VIA
	) ss	ELECTRONIC FILING
COUNTY OF ST. LOUIS	)	

Tiana Heger of the City of Duluth, County of St. Louis, State of Minnesota, says that on the 24th day of January, 2020, she served Minnesota Power's Comments in **Docket Nos. E999/DI-19-406** and **E999/CI-07-1199** on the Minnesota Public Utilities Commission and the Energy Resources Division of the Minnesota Department of Commerce via electronic filing. The persons on E-Docket's Official Service List for this Docket were served as requested.

/S/Tiana Heger

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Tiana Heger