

215 South Cascade Street
PO Box 496
Fergus Falls, Minnesota 56538-0496
218 739-8200
www.otpc.com (web site)

July 14, 2023



Mr. Will Seuffert
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 Estimate of the Costs of Future Carbon Dioxide Regulation on Electricity Generation Under Minn. Stat. SS 216H.06
Docket Nos. E999/DI-22-236 & E999/CI-07-1199
Initial Comments**

Dear Mr. Seuffert:

Otter Tail Power Company (Otter Tail) hereby submits to the Minnesota Public Utilities Commission (Commission) its Initial Comments in the above-referenced matter.

We have electronically filed this document with the Commission and copies have been served on all parties on the attached service list. A Certificate of Service is also enclosed.

Please contact me at 218-739-8989 or njensen@otpc.com if you have any questions regarding this filing.

Sincerely,

/s/ *NATHAN JENSEN*
Nathan Jensen
Resource Planning Manager

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Enclosures
By electronic filing
c: Service List

**STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION**

**In the Matter of Establishing an
Updated 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-22-236**

INITIAL COMMENTS

I. INTRODUCTION

Otter Tail Power Company (Otter Tail) submits these Comments in response to the January 5, 2023, Analysis and Recommendations of Minnesota Pollution Control Agency (MPCA) and the Minnesota Department of Commerce, Division of Energy Resources (Department) (together, the Agencies) in the above-captioned matter. The Agencies' recommended that the Minnesota Public Utilities Commission (Commission) generally reaffirm in its September 30, 2020 Order in this docket, with the exceptions of increasing the upper end of the regulatory cost of carbon range from \$25 to \$30, setting the annual increase in regulatory cost values to four percent, and updating the years for which these parameters apply for the future cost of carbon dioxide (CO₂) regulation on electricity generation to 2023 and 2024.

As noted below Otter Tail is not opposed to the Agencies' January 5, 2023, recommendations. It is important, however, to acknowledge that the Agencies' recommendations seek to provide a reasonable estimate for the cost of compliance with future policies associated with carbon emitting generation resources. Several months after the Agencies filed their Comments, Minnesota adopted a Carbon Free Standard¹ which requires Minnesota utilities to meet 100 percent of their Minnesota retail sales with carbon free generation by 2040.² Adoption of this standard appears to answer the question of the cost of compliance of future carbon regulation. Compliance with this and other standards which appear to internalize the cost of compliance may make it unnecessary to apply estimated costs of regulatory compliance. To the extent that estimated values set forth in the Agencies' recommendation remain useful or necessary Otter Tail is not opposed to those values. The following Comments reflect this structure.

¹ Minn. Stat. 216B.1691 Subd. 2g.

² In lieu of generating or procuring energy directly to satisfy the Carbon Free Standard an electric utility may utilize renewable energy credits to satisfy the standard. Minn. Stat. 216B.1691 Subd. 4(b).

II. OTTER TAIL COMMENTS

Topics Open for Comment

1. Should the Commission adopt the Agencies' recommendations from its January 5, 2023, Report? If not, how should the Agencies' recommendations be modified? The Agencies recommend the Commission:

- a. Raise the upper bound of the existing range of likely costs of CO₂ regulation to \$30 per ton of CO₂ emitted.

Otter Tail does not oppose raising the upper bound from \$25 to \$30. Otter Tail does not recommend any other range or ranges for the costs of future carbon regulation.

- b. Keep the lower bound at \$5 per ton of CO₂ emitted.

Otter Tail agrees with keeping the lower bound at \$5 for the costs of future carbon regulation.

- c. Set an annual escalation factor for the regulatory cost of carbon at 4%.

Otter Tail is not opposed to this change.

- d. Keep 2025 as the threshold planning year for which these values should begin to be applied.

Otter Tail is not opposed to this.

- e. Continue to direct utilities to use the same scenarios of combining regulatory and environmental cost values as established in the September 2020 order.

Otter Tail is not opposed to this.

2. How do capacity expansion models, such as EnCompass, treat CO₂ regulatory costs differently than environmental externalities in resource planning and resource acquisition proceedings?

Otter Tail models CO₂ regulatory costs in the same way it models environmental externalities. Both are price adders to the production costs of thermal units and market purchases based on the emission output rates and

emission type costs. All else being equal, this method increases the energy dispatch cost of units that produce emissions (including market purchases) which reduces their capacity factors and incentivizes the selection of zero or low-emission resources. We note that other utilities model externalities in a slightly different fashion, and Otter Tail remains open to adopting such methods in future resource planning proceedings.

3. Are there other issues or concerns related to this matter?

As mentioned in the introduction, Otter Tail believes that there is reason for the Commission to consider removing the future regulatory cost of carbon altogether given the passing of the Carbon Free Standard.

Supplemental Topics

4. How should the Commission's likely range of CO2 regulatory costs incorporate the requirements of Minnesota Session Laws 2023, Chapter 7, section 10, which requires Minnesota utilities to generate or procure 100 percent carbon-free electricity by 2040 (the Carbon-Free Standard)?

As mentioned in the introduction, Otter Tail believes that there is reason for the Commission to consider removing the future regulatory cost of carbon altogether given the passing of the Carbon Free Standard. To the extent the Commission deems it necessary to maintain estimates for the regulatory cost of carbon those estimates should ultimately be informational in nature, as resource decisions and planning would ultimately be driven by compliance with the Carbon Free Standard.

5. How should the Commission implement Minnesota Session Laws 2023, chapter 7, section 18, which requires the Commission to adopt estimates released by the federal Interagency Working Group on the Social Cost of Greenhouse Gases or its successors, and requires that resource planning and acquisition proceedings incorporate these estimates?

The above referenced session law requires the Commission "to the extent practicable, quantify and establish a range of environmental costs associated with each method of electricity generation." Utilities are required to use the values in conjunction with other external factors when evaluating sources options. We would anticipate that the Commission's order would so note the values

established by the Interagency Working Group and utilities would utilize the values as they currently do, which in most cases occurs outside of expansion capacity modeling as post modeling consideration. In that sense the values provide insight but are not determinative of resource selection.

6. How should the Commission incorporate potential regulatory costs resulting from the U.S. Environmental Protection Agency's CO2 regulation under the Section 111 (b) and (d) rules?

The EPA published proposed rules for CO2 regulation in the Federal Register on May 23, 2023, with comments on the proposed rule open until August 8, 2023. EPA's rulemaking agenda calls for a final rule in June 2024, and states must submit state implementation plans to EPA within two years of a final rule. This is all to say that the proposed rules have only recently been published, and there is a lengthy process until the final version of the rule or implemented at the state level, presumably in 2026.

The Otter Tail is in the process of evaluating these new proposed EPA rules and how they may affect resource planning and acquisitions. We intend to file preliminary comments on the proposed rule in August 2023. At this point in time, we believe it too early in the rule making process to assess regulatory costs of the proposed rules and how those costs might be incorporated into the Commission's resource planning process.

III. CONCLUSION

Otter Tail appreciates the opportunity to provide the Comments. If you have any questions regarding these comments, please feel free to contact Nathan Jensen at njensen@otpc.com or 218-739-8989.

Dated: July 14, 2023

Sincerely,

OTTER TAIL POWER COMPANY

By: /s/ NATHAN JENSEN

Nathan Jensen
Manager, Resource Planning
Otter Tail Power Company
215 S. Cascade Street
Fergus Falls, MN 56537
(218) 739-8989
njensen@otpc.com

CERTIFICATE OF SERVICE

**RE: In the Matter of Establishing an Updated Estimate of the Costs of
Future Carbon Dioxide Regulation on Electricity Generation Under
Minn. Stat. SS 216H.06
Docket Nos. E999/DI-22-236 & E999/CI-07-1199**

I, Kim Ward, hereby certify that I have this day served a copy of the following, or a summary thereof, on Will Seuffert and Sharon Ferguson by e-filing, and to all other persons on the attached service list by electronic service or by First Class Mail.

**Otter Tail Power Company
Initial Comments**

Dated this 14th day of **July, 2023**.

/s/ KIM WARD
Kim Ward
Lead Regulatory Filing Coordinator
Otter Tail Power Company
215 South Cascade Street
Fergus Falls MN 56537
(218) 739-8268

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Jon	Brekke	jbrekke@grenergy.com	Great River Energy	12300 Elm Creek Boulevard Maple Grove, MN 553694718	Electronic Service	No	OFF_SL_7-1199_Official
Christina	Brusven	cbrusven@fredlaw.com	Fredrikson Byron	60 S 6th St Ste 1500 Minneapolis, MN 55402-4400	Electronic Service	No	OFF_SL_7-1199_Official
Generic Notice	Commerce Attorneys	commerce.attorneys@agate.mn.us	Office of the Attorney General-DOC	445 Minnesota Street Suite 1400 St Paul, MN 55101	Electronic Service	No	OFF_SL_7-1199_Official
Stacy	Dahl	sdahl@minnkota.com	Minnkota Power Cooperative, Inc.	5301 32nd Ave S Grand Forks, ND 58201	Electronic Service	No	OFF_SL_7-1199_Official
David	Dahlberg	davedahlberg@hweco.com	Northwestern Wisconsin Electric Company	P.O. Box 9 104 South Pine Street Grantsburg, WI 548400009	Electronic Service	No	OFF_SL_7-1199_Official
Curt	Dieren	curt.dieren@dgr.com	L&O Power Cooperative	1302 S Union St Rock Rapids, IA 51246	Electronic Service	No	OFF_SL_7-1199_Official
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 280 Saint Paul, MN 551012198	Electronic Service	Yes	OFF_SL_7-1199_Official
Edward	Garvey	garveyed@aol.com	Residence	32 Lawton St Saint Paul, MN 55102	Electronic Service	No	OFF_SL_7-1199_Official
Bruce	Gerhardson	bgerhardson@otpc.com	Otter Tail Power Company	PO Box 496 215 S Cascade St Fergus Falls, MN 565380496	Electronic Service	No	OFF_SL_7-1199_Official
Todd J.	Guerrero	todd.guerrero@kutakrock.com	Kutak Rock LLP	Suite 1750 220 South Sixth Street Minneapolis, MN 554021425	Electronic Service	No	OFF_SL_7-1199_Official

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Joe	Hoffman	ja.hoffman@smmpa.org	SMMPA	500 First Ave SW Rochester, MN 55902-3303	Electronic Service	No	OFF_SL_7-1199_Official
Casey	Jacobson	ojacobson@bepec.com	Basin Electric Power Cooperative	1717 East Interstate Avenue Bismarck, ND 58501	Electronic Service	No	OFF_SL_7-1199_Official
Craig	McDonnell	Craig.McDonnell@state.mn.us	MN Pollution Control Agency	520 Lafayette Road St Paul, MN 55101	Electronic Service	No	OFF_SL_7-1199_Official
David	Moeller	dmoeller@galleite.com	Minnesota Power	30 W Superior St Duluth, MN 558022093	Electronic Service	No	OFF_SL_7-1199_Official
Dalene	Monsebroten	dalene.monsebroten@nmp agency.com	Northern Municipal Power Agency	123 2nd St W Thief River Falls, MN 56701	Electronic Service	No	OFF_SL_7-1199_Official
Andrew	Moratzka	andrew.moratzka@stoel.com	Stoel Rives LLP	33 South Sixth St Ste 4200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_7-1199_Official
Peter	Nelson	peter.nelson@americanexp eriment.org	Center of the American Experiment	8441 Wayzata Boulevard Suite 350 Golden Valley, MN 55426	Electronic Service	No	OFF_SL_7-1199_Official
David	Niles	david.niles@avantenergy.com	Minnesota Municipal Power Agency	220 South Sixth Street Suite 1300 Minneapolis, Minnesota 55402	Electronic Service	No	OFF_SL_7-1199_Official
Samantha	Norris	samanthanorris@alliantenergy.com	Interstate Power and Light Company	200 1st Street SE PO Box 351 Cedar Rapids, IA 524060351	Electronic Service	No	OFF_SL_7-1199_Official

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Russell	Olson	rolson@hcpd.com	Heartland Consumers Power District	PO Box 248 Madison, SD 570420248	Electronic Service	No	OFF_SL_7-1199_Official
Generic Notice	Residential Utilities Division	residential.utilities@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012131	Electronic Service	Yes	OFF_SL_7-1199_Official
Kevin	Reuther	kreuther@mncenter.org	MN Center for Environmental Advocacy	26 E Exchange St, Ste 206 St. Paul, MN 551011667	Electronic Service	No	OFF_SL_7-1199_Official
Robert K.	Sahr	bsahr@eastriver.coop	East River Electric Power Cooperative	P.O. Box 227 Madison, SD 57042	Electronic Service	No	OFF_SL_7-1199_Official
Kay	Schraeder	kschraeder@minkota.com	Minnkota Power	5301 32nd Ave S Grand Forks, ND 58201	Electronic Service	No	OFF_SL_7-1199_Official
Christine	Schwartz	Regulatory.records@xcelenergy.com	Xcel Energy	414 Nicollet Mall FL 7 Minneapolis, MN 554011993	Electronic Service	No	OFF_SL_7-1199_Official
Will	Seuffert	Will.Seuffert@state.mn.us	Public Utilities Commission	121 7th Pl E Ste 350 Saint Paul, MN 55101	Electronic Service	No	OFF_SL_7-1199_Official
Eric	Swanson	eswanson@winthrop.com	Winthrop & Weinstein	225 S 6th St Ste 3500 Capella Tower Minneapolis, MN 554024629	Electronic Service	No	OFF_SL_7-1199_Official
Pat	Treseler	pat.jcplaw@comcast.net	Paulson Law Office LTD	4445 W 77th Street Suite 224 Edina, MN 55435	Electronic Service	No	OFF_SL_7-1199_Official
Karen	Tyler	kt Tyler@nd.gov	Industrial Commission of North Dakota	14th Floor 600 E. Boulevard Avenue, Dept. 405 Bismarck, ND 58505	Electronic Service	No	OFF_SL_7-1199_Official

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Elizabeth	Wefel	eawefel@flaherty- hood.com	Flaherty & Hood, P.A.	525 Park St Ste 470 Saint Paul, MN 55103	Electronic Service	No	OFF_SL_7-1199_Official
Robyn	Woeste	robynwoeste@alliantenerg y.com	Interstate Power and Light Company	200 First St SE Cedar Rapids, IA 52401	Electronic Service	No	OFF_SL_7-1199_Official

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Jon	Brekke	jbrekke@greenergy.com	Great River Energy	12300 Elm Creek Boulevard Maple Grove, MN 553694718	Electronic Service	No	OFF_SL_22-236_DI-22-236
Christina	Brusven	cbrusven@fredlaw.com	Fredrikson Byron	60 S 6th St Ste 1500 Minneapolis, MN 55402-4400	Electronic Service	No	OFF_SL_22-236_DI-22-236
Generic Notice	Commerce Attorneys	commerce.attorneys@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota Street Suite 1400 St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_22-236_DI-22-236
Stacy	Dahl	sdahl@minnkota.com	Minnkota Power Cooperative, Inc.	5301 32nd Ave S Grand Forks, ND 58201	Electronic Service	No	OFF_SL_22-236_DI-22-236
David	Dahlberg	davedahlberg@nweco.com	Northwestern Wisconsin Electric Company	P.O. Box 9 104 South Pine Street Grantsburg, WI 548400009	Electronic Service	No	OFF_SL_22-236_DI-22-236
Curt	Dieren	curt.dieren@dgr.com	L&O Power Cooperative	1302 S Union St Rock Rapids, IA 51246	Electronic Service	No	OFF_SL_22-236_DI-22-236
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 280 Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_22-236_DI-22-236
Barb	Freese	bfreese@mncenter.org	Minnesota Center for Environmental Advocacy	1919 University Ave W Ste 515 Saint Paul, MN 55104-3435	Electronic Service	No	OFF_SL_22-236_DI-22-236
Edward	Garvey	garveyed@aol.com	Residence	32 Lawton St Saint Paul, MN 55102	Electronic Service	No	OFF_SL_22-236_DI-22-236
Bruce	Gerhardson	bgerhardson@otpc.com	Otter Tail Power Company	PO Box 496 215 S Cascade St Fergus Falls, MN 565380496	Electronic Service	No	OFF_SL_22-236_DI-22-236

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Todd J.	Guerrero	todd.guerrero@kutakrock.com	Kutak Rock LLP	Suite 1750 220 South Sixth Street Minneapolis, MN 554021425	Electronic Service	No	OFF_SL_22-236_DI-22-236
Kim	Havey	kim.havey@minneapolismn.gov	City of Minneapolis	350 South 5th Street, Suite 315M Minneapolis, MN 55415	Electronic Service	No	OFF_SL_22-236_DI-22-236
Joe	Hoffman	ja.hoffman@smmpa.org	SMMPA	500 First Ave SW Rochester, MN 55902-3303	Electronic Service	No	OFF_SL_22-236_DI-22-236
Casey	Jacobson	cjacobson@bepc.com	Basin Electric Power Cooperative	1717 East Interstate Avenue Bismarck, ND 58501	Electronic Service	No	OFF_SL_22-236_DI-22-236
Nathan	Jensen	njensen@otpc.com	Otter Tail Power Company	215 S. Cascade St. Fergus Falls, MN 56537	Electronic Service	No	OFF_SL_22-236_DI-22-236
Alice	Madden	alice@communitypowermn.org	Community Power	2720 E 22nd St Minneapolis, MN 55406	Electronic Service	No	OFF_SL_22-236_DI-22-236
Craig	McDonnell	Craig.McDonnell@state.mn.us	MN Pollution Control Agency	520 Lafayette Road St. Paul, MN 55101	Electronic Service	No	OFF_SL_22-236_DI-22-236
David	Moeller	dmoeller@allete.com	Minnesota Power	30 W Superior St Duluth, MN 558022093	Electronic Service	No	OFF_SL_22-236_DI-22-236
Dalene	Monsebroten	dalene.monsebroten@nmpagency.com	Northern Municipal Power Agency	123 2nd St W Thief River Falls, MN 56701	Electronic Service	No	OFF_SL_22-236_DI-22-236
Andrew	Moratzka	andrew.moratzka@stoel.com	Stoel Rives LLP	33 South Sixth St Ste 4200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_22-236_DI-22-236

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Pouya	Najmaie	pouya@cooperativeenergyfutures.com	Cooperative Energy Futures	3416 16th Ave S Minneapolis, MN 55407	Electronic Service	No	OFF_SL_22-236_DI-22-236
Peter	Nelson	peter.nelson@americanexperiment.org	Center of the American Experiment	8441 Wayzata Boulevard Suite 350 Golden Valley, MN 55426	Electronic Service	No	OFF_SL_22-236_DI-22-236
David	Niles	david.niles@avantenergy.com	Minnesota Municipal Power Agency	220 South Sixth Street Suite 1300 Minneapolis, Minnesota 55402	Electronic Service	No	OFF_SL_22-236_DI-22-236
Samantha	Norris	samanthanorris@alliantenergy.com	Interstate Power and Light Company	200 1st Street SE PO Box 351 Cedar Rapids, IA 524060351	Electronic Service	No	OFF_SL_22-236_DI-22-236
Russell	Olson	rolson@hcpd.com	Heartland Consumers Power District	PO Box 248 Madison, SD 570420248	Electronic Service	No	OFF_SL_22-236_DI-22-236
Audrey	Partridge	apartridge@mncee.org	Center for Energy and Environment	212 3rd Ave. N. Suite 560 Minneapolis, Minnesota 55401	Electronic Service	No	OFF_SL_22-236_DI-22-236
Kristel	Porter	kristel@mnrenewablenow.org	MN Renewable Now	N/A	Electronic Service	No	OFF_SL_22-236_DI-22-236
Generic Notice	Residential Utilities Division	residential.utilities@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012131	Electronic Service	Yes	OFF_SL_22-236_DI-22-236
Kevin	Reuther	kreuther@mncenter.org	MN Center for Environmental Advocacy	26 E Exchange St, Ste 206 St. Paul, MN 551011667	Electronic Service	No	OFF_SL_22-236_DI-22-236
Zachary	Ruzycki	zruzycki@greenergy.com	Great River Energy	12300 Elm Creek Boulevard Maple Grove, Minnesota 55369	Electronic Service	No	OFF_SL_22-236_DI-22-236

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Robert K.	Sahr	bsahr@eastriver.coop	East River Electric Power Cooperative	P.O. Box 227 Madison, SD 57042	Electronic Service	No	OFF_SL_22-236_DI-22-236
Kay	Schraeder	kschraeder@minnkota.com	Minnkota Power	5301 32nd Ave S Grand Forks, ND 58201	Electronic Service	No	OFF_SL_22-236_DI-22-236
Christine	Schwartz	Regulatory.records@xcelenergy.com	Xcel Energy	414 Nicollet Mall FL 7 Minneapolis, MN 554011993	Electronic Service	No	OFF_SL_22-236_DI-22-236
Will	Seuffert	Will.Seuffert@state.mn.us	Public Utilities Commission	121 7th PI E Ste 350 Saint Paul, MN 55101	Electronic Service	Yes	OFF_SL_22-236_DI-22-236
Eric	Swanson	eswanson@winthrop.com	Winthrop & Weinstine	225 S 6th St Ste 3500 Capella Tower Minneapolis, MN 554024629	Electronic Service	No	OFF_SL_22-236_DI-22-236
Pat	Treseler	pat.jcplaw@comcast.net	Paulson Law Office LTD	4445 W 77th Street Suite 224 Edina, MN 55435	Electronic Service	No	OFF_SL_22-236_DI-22-236
Karen	Tyler	ktyler@nd.gov	Industrial Commission of North Dakota	14th Floor 600 E. Boulevard Avenue, Dept. 405 Bismarck, ND 58505	Electronic Service	No	OFF_SL_22-236_DI-22-236
Analeisha	Vang	avang@minpower.com	Minnesota Power	30 W Superior St Duluth, MN 558022093	Electronic Service	No	OFF_SL_22-236_DI-22-236
Elizabeth	Wefel	eawefel@flaherty-hood.com	Flaherty & Hood, P.A.	525 Park St Ste 470 Saint Paul, MN 55103	Electronic Service	No	OFF_SL_22-236_DI-22-236
Robyn	Woeste	robynwoeste@alliantenergy.com	Interstate Power and Light Company	200 First St SE Cedar Rapids, IA 52401	Electronic Service	No	OFF_SL_22-236_DI-22-236