



AN ALLETE COMPANY

30 West Superior Street
Duluth, MN 55802-2093
www.mnpower.com



August 4, 2023

VIA E-FILING

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. § 216H.06
Docket Nos. E999/DI-22-236 and E999/CI-07-1199

Dear Mr. Seuffert:

Minnesota Power (or “the Company”) inadvertently responded to an earlier request for comment regarding the range of cost estimates for the future cost of carbon dioxide (“CO2”) regulation on electricity generation. Below are comments that both clarify the Company’s position and reply to other intervenor’s comments.

Minnesota Power is a clean-energy leader and the first utility in Minnesota to deliver 50 percent renewable energy to customers. The Company’s 2021 Integrated Resource Plan (“IRP”)¹ set it on a course to deliver more than 70 percent renewable energy by 2030. Minnesota Power’s next IRP is due to be filed on March 1, 2025, and will chart a course for the utility through 2040.

REPLY COMMENTS

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;**

As stated in initial comments, the Company believes that the regulatory costs of CO2 emissions should be set at zero as utilities must already plan for a carbon-free system in Minnesota. However, like Xcel Energy and Otter Tail Power, the Company would not object to an upper bound of \$30 per ton of CO2 for planning purposes.

¹ Docket No. E-015/RP-21-33

b. keep the lower bound at \$5 per ton of CO2 emitted;

As stated in initial comments, the Company believes the lower bound should be set at zero dollars. This is in line with the Center for Energy and Environment (“CEE”), Great River Energy, Xcel Energy, and the Clean Energy Organizations (“CEOs”) comments.

c. set an annual escalation factor for the regulatory cost of carbon at 4%;

Similar to Xcel Energy, the Company suggests the annual escalation factor should be in line with a utility’s assumptions around long term inflation used in IRPs.²

d. keep 2025 as the threshold planning year for which these values should begin to be applied; and

Minnesota Power stated in initial comments that the threshold planning year for these values should be applied beginning in 2023 but did not object to 2025. The Company also does not object to the later date of 2028 proposed by the CEOs.

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

If a regulatory cost of carbon is adopted, then the Company does not object to using the same scenarios.

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

Minnesota Power agrees with how Xcel Energy handles regulatory costs and environmental externalities in resource planning and resource acquisition proceedings.³

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

The Company has no other issues or concerns related to this matter.

² Xcel Energy’s July 14, 2023 Comments in Docket Nos. E999/CI-07-1199; E999/DI-19-406; and E999/DI-22-236, pg 7.

³ Ibid. Pg 8.

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)?

Minnesota Power’s next IRP, due in 2025, will cover planning years 2025-2040. In the 2025 IRP, the Company will set forth a plan to comply with applicable state and federal laws, including the Carbon-Free Standard.

The Company agrees with Otter Tail Power’s assessment that, “[T]here 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.”⁴

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

The Company again agrees with Otter Tail Power and Xcel Energy’s assessments that the estimates released by the Interagency Working Group should be treated as either an externality within scenario development or as a sensitivity if it’s not included in the scenarios.

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

As noted in Minnesota Power’s June 30, 2023 response to the Department of Commerce’s information request,⁵ the EPA’s proposed changes to section 111(d) and 111(b) are draft rules and will likely be subject to change when issued as a final rule. Once finalized, these rules are likely to face legal challenges before implementation. Additionally, if the final 111(d) rule is implemented, the state of Minnesota will develop a State Implementation Plan (SIP) that will provide more certainty around impacts to the existing generation fleet. Given this context, like both Xcel Energy and Otter Tail Power, the Company believes it is too soon to assess any regulatory costs to comply with the proposed rules.

⁴ Ottertail Power’s July 14, 2023 Comments in Docket Nos. E999/DI-22-236 & E999/CI-07-1199, pg 3.

⁵ DOC IR 25 in Docket No. E015/RP-21-33.

The Company also agrees with the Agencies recommendation that the Commission should continue monitoring the development of EPA's GHG Power Plant Rule to determine which fossil-fuel units in Minnesota will be covered by the final rule, what emission limits will apply to each unit, and the compliance timelines and the compliance pathways that will be available in the final rule for each unit.

7. The Agencies requested that utilities clarify in their reply comments what value of the regulatory cost of carbon was consistent with their IR responses on carbon free generation in their IRP Plans.

In Minnesota Power's IR response,⁶ the Company respectfully declined the Department's request to run EnCompass modeling to calculate the regulatory cost of carbon. There were a number of reasons the Company declined the request, some of which are detailed below.

- At this time, Minnesota Power's 2021 IRP model contains stale assumptions (e.g. cost of renewables, IRA impacts, resource adequacy requirements, etc.).
- Using the Department's requested modeling approach to calculate a regulatory cost of carbon would result in a unique regulatory cost specific to that utility and the assumptions used in the modeling at that point in time.
- The Department's proposed calculation for the regulatory cost of carbon did not consider any stakeholder input or other costs that would be considered in a robust IRP proceeding.

The Company appreciates the opportunity to provide reply comments on this topic. If you have any questions regarding this filing, please contact me at 218.591.4870 or avang@mnpower.com.

Sincerely,



Ana Vang
Senior Public Policy Advisor

AMV:th

⁶ DOC IR 1 in Docket No. E999/DI-22-236.

STATE OF MINNESOTA)
) ss
COUNTY OF ST. LOUIS)

AFFIDAVIT OF SERVICE VIA
ELECTRONIC FILING

Tiana Heger of the City of Duluth, County of St. Louis, State of Minnesota, says that on the 4th day of August, 2023, she served Minnesota Power's Reply Comments in **Docket Nos. E999/DI-22-236 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.



Tiana Heger