

In the Matter of Establishing an Estimate of the Costs of Future Carbon Dioxide Regulation on Electricity Generation Under Minnesota Statutes § 216H.06

In the Matter of a Commission Investigation into Gas Utility Resource Planning

In the Matter of a Commission Evaluation of Changes to Natural Gas Utility Regulatory and Policy Structures to Meet State Greenhouse Gas Reduction Goals

PUC Docket Nos. E999/CI-07-1199; G011/CI-23-117; G999/CI-21-565

LIUNA Minnesota and North Dakota (“LIUNA”) thanks the Minnesota Public Utilities Commission (“Commission”) for the opportunity to offer reply comments concerning the use of regulatory cost of carbon

The dramatic changes in Federal policy that have occurred over the course of the past year highlight the danger of attempting to factor speculative assumptions about future policy developments into financial models. There was a time when it might have seemed reasonable to assume based on a modicum of bipartisan consensus on climate change and action that the climate policy ratchet only worked in one direction, but that assumption has been disproven by a decade-and-a-half of pendulum swings corresponding to Federal Presidential elections.

Given recent dramatic changes in Federal policy priorities, we now know that an accurate measure of the cost of the regulatory cost of carbon for electric utilities would have been closer to -\$50 than +\$50 per ton. Since January, the President and Congress have implemented and passed policies that substantially undercut the economics of carbon-free resources while boosting the value of carbon-generating resources including uncaptured coal power – not only by moving to roll back regulatory requirements that were baked into utility resource models, but also by seeking to force coal plants to remain open. In retrospect, it is clear that the regulatory regime in place in 2024 a stop along the way to tighter controls on carbon, but the far reach of the pendulum which has swung back faster than most could have anticipated.

This is not to suggest that the rollback of Federal climate policy is good, or that it will not have real potential costs to ratepayers and through climate impacts. In Minnesota, we measure such climate impacts and estimate their economic cost through the Social Cost of Carbon, whose value can be debated but does not change based on the latest election or opinion poll. The problem with the concept of regulatory cost of carbon, is that it does not measure actual climate impacts but is instead the equivalent of a Polymarkets bet on the likelihood of climate action, which in today’s political climate is essentially a bet on the outcome of succeeding elections.

The fundamental problem with the regulatory cost of carbon values proposed by Fresh Energy, MCEA, and Sierra Club is that they are based on the assumption that future regulation will internalize all of the costs associated with greenhouse gas emissions because they believe these costs must be internalized, not because they have a crystal ball or even a coherent theory of how such policies will be adopted by the nation's elected officials – more than half which appear to want the exact opposite outcome – let alone whether these policies will be upheld by courts that are increasingly hostile to just such actions.

Once again, we do not endorse climate inaction, we only suggest that it would be inappropriate to treat hypothetical future regulation that largely amounts to wishful thinking as an actual cost that will be paid by future ratepayers. While social cost of carbon provides a useful frame for weighing direct economic costs against the estimated cost of climate impacts, adding a speculative regulatory cost merely amounts to putting a thumb on the scale and hiding the true economic cost of a lower-emission plan. Further, to the degree we treat these speculative costs as real, we risk spending more on the other side and creating fictitious “savings” that are not worth more than monopoly money.

We think it is reasonable to think of regulatory cost of carbon as a sensitivity that should be explored, but in that case the only responsible way to do so is to consider the actual range of policy outcomes – from new regulation that imposes significant costs on emissions to a different set of regulations (or deregulation) that necessarily assigns a large negative value to the regulatory cost of emissions compared to the policy baseline. We generally recommend that the Commission avoid assigning a regulatory cost of carbon at this time for gas utility planning because it is not required and adds no value that we can discern to the process. If the Commission wants to establish a range, however we recommend -\$50 to \$50 if the Environmental Protection Agency's methane rules are assumed to be part of the baseline, or a higher range without those rules, under the assumption that it should be up to each utility to characterize and justify the values that have been selected..

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Respectfully Submitted,
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