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May 2, 2016

—Via Electronic Filing—

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

RE: REPLY COMMENTS
ESTABLISHING AN ESTIMATE OF THE COSTS OF FUTURE CARBON DIOXIDE
REGULATION UNDER MINN. STAT. §216H.06
(DOCKET NOS. E999/CI-07-1199 AND E999/CI-15-708)

Dear Mr. Wolf:

Northern States Power Company, doing business as Xcel Energy, submits to the Minnesota Public Utilities Commission this Reply to the April 21, 2016 Comments of Minnesota Power, Otter Tail Power Company, and the Clean Energy Organizations (CEOs) in the above-referenced dockets. In our April 21 Comments, we responded to each of the topics included in the Commission's April 1, 2016 *Notice of Comment Period in the Matter of Establishing an Estimate of the Costs of Future Carbon Dioxide Regulation on Electric Generation Under Minn. Stat. § 216H.06*. In this Reply, we respond to the comments of the other parties on the question of whether to open a docket to re-examine the relationship between the external costs of carbon dioxide (CO₂) and the anticipated regulatory costs of CO₂.

In Comments, Minnesota Power and Otter Tail Power Company argue against opening a separate docket to examine the relationship between CO₂ externality costs and CO₂ regulatory costs, while the CEOs urge the Commission to open a new docket. While we believe a separate docket is unnecessary, we agree the issues the CEOs have raised are worthy of Commission consideration. We suggest the Commission could reasonably speak to this issue in future dockets where it examines how the regulatory and externality values are applied. We respond here to certain aspects of the CEOs' comments.

First, the CEOs argue that it would not be appropriate to apply the CO₂ regulatory cost values and the CO₂ environmental cost values to the same ton of CO₂ emitted, and that “a given ton of CO₂ should be covered by the regulatory cost *or* the externality value.”¹ We concur. Any environmental regulation is intended to internalize at least a portion of the externalized damages attributable to the regulated pollutant. Applying the CO₂ regulatory cost and the CO₂ externality cost to the same ton of CO₂ emission would tend to double-count some portion of the damages, and would imply that regulation has not internalized any portion of the damages.

The CEOs then argue that because regulation will not eliminate CO₂ emissions, only reduce them, utilities and the Commission “should assess the external costs of CO₂ emissions that will not be mitigated by carbon regulations.” Specifically, the CEOs propose that the Commission “is in the position now to estimate how many tons of CO₂ will be regulated” under the U.S. Environmental Protection Agency’s Clean Power Plan (CPP) by using the statewide CPP reduction target, as well as to estimate the CO₂ reductions required by the Next Generation Energy Act goals, and could then require utilities to apply the CO₂ externality costs “to the remaining projected emissions” not covered by either the CPP or the Next Generation Energy Act goals.

From a practical perspective, we believe there are two important things to consider. First, the CPP does not require a certain percentage reduction by each utility or set a firm cap on the amount of CO₂ that may be emitted by a utility. Instead, the CPP sets rate-based (pounds of CO₂ per megawatt hour) targets at the electricity generating unit level, and translates these into rate-based and mass-based (total tons of CO₂) targets at the state level. A utility may comply with the targets applicable to its regulated electricity generating units by reducing their operation and/or emissions, and/or by acquiring sufficient Emission Rate Credits (if Minnesota selects a rate-based approach to compliance) or CO₂ allowances (if Minnesota selects a mass-based approach) to achieve the targets. In a mass-based plan, one utility might decide it is most cost-effective for its customers to reduce emissions down to (or below) the number of CO₂ allowances allocated to that utility; another might decide it is more cost-effective to continue operating at a higher level of CO₂ emissions and purchase allowances to bring its units into compliance. In any case, the percentage reduction targets that the CPP provides at the state level do not apply at the utility level. Practically speaking, it would be difficult to identify a certain amount of CO₂ reduction that the CPP requires of a given utility, and to then assign the CO₂ regulatory cost values to this portion and the CO₂ environmental cost values to the remainder.

¹ Comments of Clean Energy Organizations. *In the Matter of Establishing an Estimate of the Costs of Future Carbon Dioxide Regulation on Electricity Generation under Minn. Stat. § 216H.06*. Docket No. E999/CI-07-1199; Related Docket No. E999/CI-15-708. Page 5.

Second, the Next Generation Energy Act goals do not provide an indication of CO₂ reductions required at the utility level. The Next Generation Energy Act provides greenhouse gas reduction goals at the state level, across all economic sectors, not goals specific to the electric sector or mandates for any individual utility. Electric utilities do not face a state mandate to achieve these goals, though many are currently achieving or exceeding them. The Company exceeded the Next Generation Energy Act goal for 2015 and is on track to exceed the goal for 2025. Nonetheless, the Next Generation Energy Act goals are not utility mandates, and we do not see how they could be used to determine by how much CO₂ must be reduced at the individual utility level and apply the CO₂ environmental cost values to the remainder.

While we do not see how the CEOs' proposal could be implemented in practice, we agree these issues are worthy of consideration in future dockets where the Commission considers how regulatory and externality values are applied. We appreciate the opportunity to provide these comments. We have electronically filed this document with the Minnesota Public Utilities Commission, and copied parties on the attached service list. Please contact Nicholas Martin at (612) 330-6255 or Nicholas.F.Martin@xcelenergy.com, or me at (612) 215-5367 or Amy.S.Fredregill@xcelenergy.com, if you have any questions.

Sincerely,

/s/

AMY S. FREDREGILL
MANAGER, RESOURCE PLANNING AND STRATEGY
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Enclosures

c: Service List

CERTIFICATE OF SERVICE

I, Jim Erickson, hereby certify that I have this day served copies of the foregoing document on the attached list of persons.

xx by depositing a true and correct copy thereof, properly enveloped with postage paid in the United States mail at Minneapolis, Minnesota;

xx by electronic filing.

DOCKET NO: E999/CI-07-1199
E999/CI-15-708

Dated this 2nd day of May 2016

/s/

Jim Erickson

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