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January 24, 2020

Mr. Ryan Barlow
Acting Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, MN 55101-2147

RE: 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/DI-19-406, Docket No. E999/CI-07-1199 Comments

Dear Mr. Barlow,

Enclosed are Otter Tail Power Company's (Otter Tail's) Comments in the matter referenced above. These Comments have been electronically filed with the Minnesota Public Utilities Commission and copies have been served on all parties on the attached service lists. A Certificate of Service is also enclosed.

Please contact me at 218-739-8417 or bhdraxten@otpc.com with any questions you may have.

Sincerely,

/s/ BRIAN DRAXTEN
Brian Draxten
Manager, Resource Planning

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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 No. E999/DI-19-406
Docket No. E999/CI-07-1199

COMMENTS OF OTTER TAIL POWER COMPANY

Otter Tail Power Company (Otter Tail) submits these Comments in response to the Minnesota Public Utilities Commission (Commission) Notice of Comment Period dated December 20, 2019, in the above-captioned matter. The Commission's Request for Comments invited comments on the range of cost estimates for the future cost of carbon dioxide (CO₂) regulation on electricity generation. In addition, the Commission requested certain specific information from the utilities.

I. Topics Open for Comment

- **Should the Commission adopt the Agencies' recommended CO₂ regulatory cost range?**

Otter Tail agrees that the regulatory cost range of \$5 to \$25 per ton of CO₂ emissions is reasonable and would favor adoption of that range by the Commission.

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

Otter Tail does not recommend any other range or ranges for the costs of future carbon regulation. Based on the assumptions used in the Wood Mackenzie energy price forecast, it is Otter Tail's opinion that using a start date of 2028 is more appropriate than 2025. It will in all likelihood take several years to get a CO₂ reduction plan developed and approved, and likely an additional period of years after that before compliance is required. Despite our preference being

2028, we do not feel that 2025 is unreasonable and would support that as the date that CO₂ costs begin to be applied.

- **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?**

We do not believe it would be appropriate to contemplate a specific type of CO₂ regulation at this time. The type of CO₂ regulation that will be instituted and the specifics of any such proposal, if any, are far from being decided.

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

Otter Tail does not think it is reasonable to base the range of CO₂ costs on programs in which Minnesota does not participate. There are many factors (i.e., resource mix, renewable energy standards, utility carbon goals) that would likely cause differences in a Minnesota carbon program compared to the Regional Greenhouse Gas Initiative (RGGI) and the Western Climate Initiative (WCI) programs. Looking at the price discrepancies between the RGGI and WCI programs themselves demonstrates how greatly prices can vary from one program to another. RGGI and WCI are also both “cap and trade” programs, which may not be an accurate depiction of what a direct tax program would look like.

- **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?**

Otter Tail interprets the statute to mean that the values should reflect the cost/price of all CO₂ tons emitted by the Company.

- **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?**

Otter Tail does not feel that the allowance prices in RGGI reflect the net costs to states participating in that program. The policies that are in place set the allowance prices, but do not reflect the actual net cost of carbon reducing actions taken by the states.

- **For parties who perform capacity expansion modeling, please discuss how CO₂ regulatory costs are modeled differently, if at all, then 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?**

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.

- **Are there other issues or actions the Commission should consider?**

There are no other issues that Otter Tail would like the Commission to consider at this time.

II. Conclusion

Otter Tail supports the Agencies' recommendation to continue using a range of \$5 to \$25 per ton of CO₂ emitted. Although we would prefer a start date of 2028, we support the Agencies' recommendation to apply the CO₂ costs starting in 2025. We also support the recommendation that no change should be made in the way the regulatory cost range is applied. Otter Tail recommends that this range and start time be applied for a two-year time period covering both 2020 and 2021.

If you have any questions regarding these comments, please feel free to contact Brian Draxten at bhdraxten@otpc.com or 218-739-8417.

Dated: January 24, 2020

Respectfully submitted,

OTTER TAIL POWER COMPANY

By: /s/ *BRIAN DRAXTEN*

Brian Draxten

Manager, Resource Planning

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CERTIFICATE OF SERVICE

**RE: 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/DI-19-406, Docket No. 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 Ryan Barlow 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
Comments**

Dated this 24th day of **January, 2020**.

/s/ Kim Ward
Kim Ward, Regulatory Filing Coordinator
Otter Tail Power Company
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Ryan	Barlow	ryan.barlow@state.mn.us	Public Utilities Commission	121 7th Place East Suite 350 St. Paul, MN 55101214	Electronic Service	No	SPL_SL_19-406_19-406
Generic Notice	Commerce Attorneys	commerce.attorneys@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota Street Suite 1800 St. Paul, MN 55101	Electronic Service	No	SPL_SL_19-406_19-406
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