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September 22, 2017

Mr. Daniel P. Wolf
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-17-53, Docket No. E999/CI-07-1199
Comments**

Dear Mr. Wolf,

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-17-53
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 Pollution Control Agency (MPCA) and the Minnesota Department of Commerce, Division of Energy Resources (DOC) (together, the Agencies) Request for Comments dated August 22, 2017, in the above captioned matter. The Agencies' Request for Comments invited comments on the range of cost estimates for the future cost of carbon dioxide (CO₂) regulation on electricity generation.

I. Topics Open for Comment

Request:

What approaches could be used within the next few months to develop updates regulatory cost value ranges for CO₂ emissions?

- *If existing carbon trading markets are used as a reference, should only markets located in the U.S./North America be considered or should all global values be considered?*

OTP's Comments:

Two important sources of estimates for future regulatory cost value ranges for CO₂ emissions exist today: carbon trading markets and energy price forecasts.

Carbon trading markets are actual tests of what parties are willing to pay for CO₂ allowances, both currently and in the near-term future, and should be a consideration when setting a range of CO₂ allowance costs.

However, energy price forecasting firms such as Wood Mackenzie or Ventyx are more useful when trying to predict cost levels further into the future. The reputable firms that perform such forecasting have done extensive research and use sophisticated integrated models that

analyze the impact of federal and state energy policy, natural gas prices, renewable generation penetration, coal prices, new natural gas generation, and transmission buildouts on CO₂ allowance pricing.

Only U.S. markets and forecasts should be considered when determining updated regulatory cost ranges for CO₂. Widely varying national energy policies and economic strength in other nations make irrelevant those costs when attempting to determine what we should apply in Minnesota. The best comparisons might even be regionally, say MISO North, within the United States.

Request:

Given the United States Supreme Court's stay of the Clean Power Plan implementation and the United States Environmental Protection Agency (USEPA) state intention to replace the Clean Power Plan as well as other considerations, what is a reasonable date (year) in which utilities can be expected to incur regulatory CO₂ emission costs?

OTP's Comments:

The timing of a USEPA replacement rule for the Clean Power Plan is uncertain. The most recent Wood Mackenzie forecast assumes that regulatory CO₂ emission costs will begin in 2028. Otter Tail supports this as a reasonable assumption and recommends that 2028 be used as the year to begin modeling the regulatory cost of CO₂.

Request

Is there a basis for the Commission to re-assess its decision to apply only the regulatory cost value or the externality value, but not both, to emissions in a given planning year? If so, please provide the basis.

OTP Comments:

No. While an extensive proceeding addressing the Federal Social Cost of Carbon and criteria pollutants was recently concluded before the Commission, there was no evidence in that proceeding that supported applying both the regulatory cost value and an externality value.

That issue is outside the scope of the proceeding at hand whose sole purpose is to determine “the future cost of carbon dioxide (CO₂) regulation on electricity generation.”

Request:

If there is a basis for the Commission to re-assess how the regulatory cost value and the externality value ranges are applied, what options should the Commission consider?

OTP Comments:

Again, that question is outside the scope of this proceeding. No evidence has been presented that would provide a basis for the Commission to re-assess how these costs are applied.

II. Conclusion

The purpose of the current docket is to update the estimate of the cost of future CO₂ regulation and determine when those costs should begin to be applied. There is no basis for the Commission to change how the regulatory costs and externality costs are applied.

Otter Tail recommends that the regulatory cost of CO₂ begin to be applied in 2028 and that the values used come from the averaging of those costs as determined by nationally recognized forecasting services such as Wood Mackenzie.

The nation is seeing a significant shift in electric generation from traditional coal generation to natural gas and renewables. CO₂ emissions are declining rapidly in this industry. However, these reductions are being driven by economics, not by federal and state legislation or regulation.

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

Dated: September 22, 2017

Respectfully submitted,

OTTER TAIL POWER COMPANY

By: /s/ BRIAN DRAXTEN

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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-17-53, 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 Daniel P. Wolf 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 **22nd** day of **September, 2017**.

/s/ Kim Ward
Kim Ward, Regulatory Filing Coordinator
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