



Lori Hoyum
Policy Manager
218-355-3601
lhoyum@mnpower.com

September 22, 2011

VIA ELECTRONIC FILING

Dr. Burl W. Haar
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, MN 55101-2147

Re: In the Matter of Minnesota Power's Annual Filing
in Compliance with Minn. Stat. §216B.6851 subd. 5
Docket No. E015/M-11-712

Dear Dr. Haar:

Minnesota Power hereby electronically submits its Reply Comments in the above referenced docket.

Please contact me at (218) 355-3601 if you have any questions regarding this filing.

Yours truly,

Lori Hoyum

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Attachment
c: Service List

**STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION**

In the Matter of Minnesota Power's Annual
Filing In Compliance with Minn. Stat.
§ 216B.6851, subd. 5

Docket No. E015/M-11-712

REPLY COMMENTS

Minnesota Power files these Reply Comments in response to the Department of Commerce – Division of Energy Resources (“Department”) and Minnesota Center for Environmental Advocacy (“MCEA”) who each filed Initial Comments on August 15, 2011. Minnesota Power appreciates the Department and MCEA’s timely review of Minnesota Power’s 2011 Report to the Minnesota Public Utilities Commission (“Commission”) and Minnesota Pollution Control Agency (“MPCA”) submitted on June 30, 2011 in compliance with Minn. Stat. § 216B.6851, subd. 5. Through this Report, Minnesota Power provided the Commission, the MPCA, the Department and other stakeholders insight into its planning and analysis process as Minnesota Power evaluates how best to achieve compliance with Minnesota’s mercury reduction requirements at its Boswell Energy Center Unit 4 (“BEC4”). Minnesota Power agrees with the Department’s conclusion that Minnesota Power’s 2011 Report contains all of the information required by Minn. Stat. § 216B.6851, subd. 5(b).

This Report is the first of several reports to be submitted by Minnesota Power in the next approximately two year period that address the status of BEC4 emission reduction technology and federal emission rule impacts both under the Mercury Emission Reduction Act (“MERA”) and under Minnesota Power’s resource plan filings. By February 6, 2012 Minnesota Power will be submitting a Baseload Diversification Study¹ as required by the Commission stemming from Minnesota Power’s 2010 Integrated Resource Plan (“2010 Plan”) Order. Minnesota Power will also submit 2012 and 2013 Mercury Emission Reduction Plan Reports by July 1, 2012 and July

¹ Minnesota Power is required to file a study addressing baseload diversification away from coal generation no later than nine months from the May 6, 2011 Order date in Minnesota Power’s 2010 Resource Plan docket. See Docket No. E015/RP-09-1088.

1, 2013, respectively. Additionally, Minnesota Power will be submitting its next Integrated Resource Plan by July 1, 2013.

Minnesota Power has committed to on-going, continuous dialogue with its stakeholders as to its environmental plans surrounding mercury emission reduction and other pending environmental regulation as they affect BEC4. These Reply Comments are part of that dialogue which will occur about this Report and forthcoming reports associated with this docket, the Baseload Diversification Study and the next Integrated Resource Plan.

Environmental stewardship has and will continue to be at the core of Minnesota Power's decision-making process, balancing what is in the best interest of its customers with what is best and required to protect the environment. Minnesota Power is in full compliance with all existing environmental regulations and will comply with all future regulations as they go into effect. However, as history has repeatedly shown, final regulations can oftentimes differ significantly from what was initially proposed in the rulemaking and the timelines for enactment of these regulations almost always slip. It would not be prudent for Minnesota Power to expend valuable resources engineering solutions that may not ultimately meet the final requirements in a cost-effective manner.

The Mercury and Air Toxics Standards ("MATS"), formerly known as the Electric Generating Unit Maximum Achievable Control Technology ("MACT"),² is a recent example of a regulation that has shown several renditions and been delayed several times. The United States Environmental Protection Agency ("EPA") began working on the original MACT for utilities in 2000 to address mercury emissions. In 2005, the proposed MACT rule was replaced with the Clean Air Mercury Rule ("CAMR"), a cap and trade approach. The CAMR was vacated by the courts, and in March 2011, the EPA proposed a new Utility MACT Rule to address not only mercury, but other trace metals, acid gases, and organics. Even the mercury standard originally listed in the 2011 proposed Rule has already been modified once to address EPA errors. Many other issues with this proposed Rule have been identified by commenters, and EPA is required to address those issues before promulgating a final rule.

² The proposed Electric Generating Unit Maximum Achievable Control Technology is commonly referred to as the "Utility MACT."

Another example is the Industrial Boiler MACT Rule.³ The final Rule differed significantly from the originally proposed Rule issued in January 2003. For example, the emission limit for mercury in a biomass boiler that co-fires coal went from 3 lbs/trillion btu in the proposed rule, to 4.6 lbs/trillion btu in the final. The carbon monoxide limit went from 50 ppm to 490 ppm, an approximate 10-fold increase. Clearly, cost-effective engineered solutions would differ depending on the final outcome of Industrial Boiler MACT Rule. The timeline for the Industrial Boiler MACT Rule has slipped as well. The final Rule was issued in March 2011; however, EPA has now put a stay on the Rule under the Administrative Procedure Act pending reconsideration and judicial review of the Rule, which effectively has delayed final implementation of the Rule by at least one or more years.

The 2011 Report stated that the EPA was expected to release the final ozone National Ambient Air Quality Standards (“NAAQS”) in July. That did not happen. In fact, President Obama has just ordered the EPA to withdraw the draft ozone NAAQS. These are just some of the many examples of significant delays and changes that have occurred in the rulemaking process which make it very difficult to plan for emission controls at this time.

As discussed in the Report, there is currently significant environmental regulatory uncertainty. The only regulatory certainty is the state MERA requirement to install and operate mercury emissions control on BEC4 by 2018. Minn. Stat. § 216B, subd. 5(a). Since the 2011 Report was originally submitted, EPA has finalized the Cross-State Air Pollution Rule (originally proposed as the Transport Rule). Minnesota Power has done an initial review of that rule and believes the Company will have sufficient allowances allocated for sulfur dioxide (“SO₂”) and oxides of nitrogen (“NO_x”) eliminating the need for additional emission controls to be installed or to purchase allowances for BEC4. On September 12, 2011 a Texas electric utility filed a legal challenge with the D.C. Circuit Court of Appeals asserting the Cross-State Air Pollution Rule’s deadlines and requirements are unrealistic. If the appellate court stays the new Rule pending appeal, there would be further delay in implementation. Additionally, EPA has stated their intent to develop greenhouse gas New Source Performance Standards (“NSPS”) that

³ The EPA proposed national emission standards for hazardous air pollutants (“NESHAP”) for industrial, commercial and institutional boilers and process heaters. The EPA identified industrial, commercial, and institutional boilers and process heaters as major sources of hazardous air pollutants (“HAP”) emissions. The rule which is under reconsideration and judicial review at this time requires all major sources to meet HAP emissions standards reflecting the application of the maximum achievable control technology.

will apply to existing emission units. However, no rule has yet been proposed, so it is impossible to assess what impact, if any, this future standard will have on BEC4. Minnesota Power will continue to track any developments on this process.

Minnesota Power is committed to complying with all environmental regulations as they become final and are implemented. Minnesota Power is also committed to complying with these regulations in a cost-effective manner for the sake of all of its stakeholders. As these examples have shown, it is difficult to design emission controls when it is not known what standards and specifications will have to be met.

In its comments on Minnesota Power's Report, MCEA expressed concerns about the "*assessment and analysis* of impacts of likely new regulations and the company's possible responses...." With the potential for significant financial implications to Minnesota Power customers and the lingering uncertainty around proposed environmental regulations, it would be premature to announce specific plans to retrofit, repower, remission or retire any unit in its generating fleet without additional detail on what the final requirements from key regulations being discussed, such as MATS, will be. At this time, Minnesota Power has provided detailed information on its known requirements per MERA until additional clarity can be given by EPA (and potentially the courts) regarding the implementation of additional final rules. As noted in the Report, Minnesota Power will be submitting its Baseload Diversification Study by February 6, 2012. In addition to including a more current evaluation of BEC4, the Baseload Diversification Study will include evaluations of Minnesota Power's other generating facilities, considering the fleet as an overall power supply system for Minnesota Power customers, which is in addition to the requirements of Minn. Stat. § 216B.6851, subd. 5.

SUMMARY

Minnesota Power recognizes that the 2011 Report is just the beginning of a dialogue with the Commission and stakeholders as how best to evaluate and fully comply with existing and pending environmental regulations. Minnesota Power remains committed to meeting EPA's requirements and finding the best solution for BEC4 and Minnesota Power's customers. As discussed above, the Baseload Diversification Study will provide the most current assessment and analysis of the impacts of a variety of factors impacting Minnesota Power's coal-fired

generation facilities including existing and potential environmental regulations, projected fuel costs (coal and natural gas), potential alternate fuels (repowering), long term wholesale market prices, and implications of unit retirements. Should there be no definitive environmental compliance plan for BEC4 determined in the Baseload Diversification Study, based on the most current assessments of known state and federal regulations, Minnesota Power will continue its ongoing evaluation and meet the compliance filing requirements it has per MERA in 2012 and 2013. These compliance filings will provide Minnesota Power the opportunity for on-going, continuous exchange of ideas with its stakeholders as to its environmental plans surrounding mercury emission reduction and other air pollutants as they affect BEC4.

Dated: September 22, 2011

Respectfully submitted,

A handwritten signature in black ink, reading "Lori Hoyum". The signature is fluid and cursive, with the first name "Lori" and last name "Hoyum" clearly distinguishable.

Lori Hoyum
Policy Manager
Minnesota Power
30 West Superior Street
Duluth, Minnesota 55811
(218) 355-3601
lhoyum@mnpower.com

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

AFFIDAVIT OF SERVICE VIA
ELECTRONIC FILING

Kristie Lindstrom of the City of Duluth, County of St. Louis, State of Minnesota, says that on the 22nd day of September, 2011, she served Minnesota Power's Reply Comments in Docket No. E015/M-11-712 to the Minnesota Public Utilities Commission and the Energy Resources Division of the Minnesota Department of Commerce of via electronic filing. The remaining parties on the attached service list were served as so indicated on the list

/s/ Kristie Lindstrom

Subscribed and sworn to before
me this 22nd day of September, 2011.

/s/ Jodi Nash

Notary Public - Minnesota
My Commission Expires Jan. 31, 2015

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Christopher	Anderson	canderson@allete.com	Minnesota Power	30 W Superior St Duluth, MN 558022191	Electronic Service	No	OFF_SL_11-712_Official
Julia	Anderson	Julia.Anderson@ag.state.mn.us	Office of the Attorney General-DOC	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012131	Electronic Service	No	OFF_SL_11-712_Official
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 500 Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_11-712_Official
Elizabeth	Goodpaster	bgoodpaster@mncenter.org	MN Center for Environmental Advocacy	Suite 206 26 East Exchange Street St. Paul, MN 551011667	Paper Service	No	OFF_SL_11-712_Official
Burl W.	Haar	burl.haar@state.mn.us	Public Utilities Commission	Suite 350 121 7th Place East St. Paul, MN 551012147	Electronic Service	No	OFF_SL_11-712_Official
Margaret	Hodnik	mhodnik@mnpower.com	Minnesota Power	30 West Superior Street Duluth, MN 55802	Electronic Service	No	OFF_SL_11-712_Official
Lori	Hoyum	lhoyum@mnpower.com	Minnesota Power	30 West Superior Street Duluth, MN 55802	Electronic Service	No	OFF_SL_11-712_Official
Anne	Jackson	anne.jackson@state.mn.us	MN Pollution Control Agency	520 Lafayette Road St Paul, MN 55115	Electronic Service	No	OFF_SL_11-712_Official
Amanda A	James	AmandaJames@alliantenergy.com	Interstate Power & Light Company - Gas	200 First St SE PO Box 351 Cedar Rapids, IA 52401-0351	Paper Service	No	OFF_SL_11-712_Official
John A.	Knapp	jknapp@winthrop.com	Winthrop & Weinstine	Suite 3500 225 South Sixth Street Minneapolis, MN 554024629	Paper Service	No	OFF_SL_11-712_Official

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Michael	Krikava	mkrikava@briggs.com	Briggs And Morgan, P.A.	2200 IDS Center80 South 8th Street Minneapolis, MN 55402	Electronic Service	No	OFF_SL_11-712_Official
Nancy	Lange	midwestoffice@iwla.org	Izaak Walton League of America	Suite 202 1619 Dayton Avenue St. Paul, MN 55104	Paper Service	No	OFF_SL_11-712_Official
Douglas	Larson	dlarson@dakotaelectric.co m	Dakota Electric Association	4300 220th St W Farmington, MN 55024	Electronic Service	No	OFF_SL_11-712_Official
James D.	Larson		Avant Energy Services	200 S 6th St Ste 300 Minneapolis, MN 55402	Paper Service	No	OFF_SL_11-712_Official
Robert S	Lee	RSL@MCMLAW.COM	Mackall Crounse & Moore Law Offices	1400 AT&T Tower 901 Marquette Ave Minneapolis, MN 554022859	Paper Service	No	OFF_SL_11-712_Official
John	Lindell	agorud.ecf@state.mn.us	Office of the Attorney General-RUD	900 BRM Tower 445 Minnesota St St. Paul, MN 551012130	Electronic Service	No	OFF_SL_11-712_Official
Pam	Marshall	pam@energycents.org	Energy CENTS Coalition	823 7th St E St. Paul, MN 55106	Paper Service	No	OFF_SL_11-712_Official
David	Moeller	dmoeller@allete.com	Minnesota Power	30 W Superior St Duluth, MN 558022093	Electronic Service	No	OFF_SL_11-712_Official
Andrew	Moratzka	apm@mcmlaw.com	Mackall, Crounse and Moore	1400 AT&T Tower 901 Marquette Ave Minneapolis, MN 55402	Paper Service	No	OFF_SL_11-712_Official
Kevin	Reuther		MN Center for Environmental Advocacy	Suite 206 26 East Exchange Street St. Paul, MN 551011667	Paper Service	No	OFF_SL_11-712_Official

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Thomas	Scharff	thomas.scharff@newpagecorp.com	New Page Corporation	P.O. Box 8050 610 High Street Wisconsin Rapids, WI 544958050	Electronic Service	No	OFF_SL_11-712_Official
Ron	Spangler, Jr.	rlspangler@otpc.com	Otter Tail Power Company	215 So. Cascade St. PO Box 496 Fergus Falls, MN 565380496	Electronic Service	No	OFF_SL_11-712_Official
Eric	Swanson	eswanson@winthrop.com	Winthrop Weinstine	225 S 6th St Ste 3500 Capella Tower Minneapolis, MN 554024629	Electronic Service	No	OFF_SL_11-712_Official
Karen	Turnboom	karen.turnboom@newpagecorp.com	NewPage Corporation	100 Central Avenue Duluth, MN 55807	Paper Service	No	OFF_SL_11-712_Official
Laurance R.	Waldoch		Lindquist & Vennum	4200 IDS Center 80 South 8th Street Minneapolis, MN 554022274	Paper Service	No	OFF_SL_11-712_Official