

May 2, 2016

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 East 7th Place, Suite 350
St. Paul, MN 55101-2147

**RE: Reply Comments of the Minnesota Department of Commerce and Minnesota
Pollution Control Agency (the Agencies)**
Docket No. E999/CI-07-1199

Dear Mr. Wolf:

On April 1, 2016, the Minnesota Public Utilities Commission (Commission) issued its *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*. The Notice requested comments on:

- What CO₂ values should the Commission adopt for 2016?
- Should the Commission, at this time, adopt CO₂ values for 2017?
- Are the comments of the Minnesota Pollution Control Agency and the Minnesota Department of Commerce consistent with prior Commission Orders in this Docket?
- Should the Commission open a docket to reexamine the relationship between the external cost of CO₂ and the anticipated regulatory cost of CO₂, as recommended on page 4 of the Clean Energy Organizations' comments in Docket 15-709?
- Any other docket-related issues or concerns.

On April 21, 2016, the Clean Energy Organizations (CEO), Minnesota Power (MP), Otter Tail Power Company (OTP) and Xcel Energy filed comments.

All commenters indicated support for Commission adoption of a \$9 to \$34 per ton range to represent the estimate of the range of likely costs of CO₂ regulation, and to apply this value range beginning in 2022.

The Agencies noted, in our March 29, 2016 *Analysis and Recommendations*, that "it may be reasonable for the Commission to determine that the approved range for 2016 could also be considered reasonable for 2017" since the current range and starting year were put in place for two years. The CEO and Xcel Energy opposed maintaining for 2017 the decision that the Commission will make for 2016. The Agencies defer to the Commission's discretion on this matter.

No commenters identified any inconsistencies between the Agencies' recommendation and past Commission Orders in this docket.

As to whether the Commission should open a docket to re-examine the relationship between the external cost of CO₂ and the regulatory cost of CO₂, the Agencies note that the Commission's December 21, 2007 Order in Docket No. E999/CI-07-1199 states:

[The Center for Energy and Economic Development], the Department, the Environmental Intervenors and the Municipal Group asked the Commission to clarify that whatever estimates of CO₂ regulation costs the Commission may adopt in this docket would not apply *in addition to* the existing estimates of CO₂ externality costs.

The Commission finds merit in this clarification. While the calculation of externality values under § 216B.2422 is not directly comparable to the estimate of regulatory costs under § 216H.06, they both reflect steps to account for the burdens that CO₂ emissions impose on third parties. When a utility calculates the costs of emitting another ton of CO₂ in any given year, therefore, it would be inappropriate to use both the CO₂ externality value and the CO₂ regulatory cost estimate. But utilities should continue to apply the Commission's CO₂ externality values otherwise.

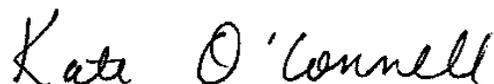
Should the Commission wish to re-evaluate this relationship, the Agencies would be available to assist the Commission in that effort.

The CEO also requested that the Commission consider how to update regulatory cost estimates to better reflect known federal or state regulations. As noted in our *Analysis and Recommendations*, the Agencies welcome interested parties' suggestions for determining regulatory cost estimates, and will consider and incorporate any information available at the time of the next update.

Sincerely,



/s/ FRANK KOHLASCH
Manager
Environmental Analysis Outcomes
Minnesota Pollution Control Agency



/s/ KATE O'CONNELL
Manager
Energy Planning & Advocacy
Minnesota Department of Commerce

CERTIFICATE OF SERVICE

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

**Minnesota Department of Commerce
Reply Comments**

Docket No. E999/CI-07-1199

Dated this 2nd day of May 2016

/s/Sharon Ferguson

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