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March 9, 2012

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

Mr. Bill Sierks  
Minnesota Pollution Control Agency  
520 Lafayette Road N.  
St. Paul, Minnesota 55155

Re: Interstate Power and Light Company  
Docket No. E999/CI-07-1199  
Response

Dear Dr. Haar and Mr. Sierks:

Interstate Power and Light Company (IPL) respectfully submits this response addressing the Notice issued by the Minnesota Pollution Control Agency (MPCA) for establishing 2012 estimates of the cost of carbon dioxide regulation.

IPL believes that providing a forecasted estimate of the likely range of costs of future carbon dioxide regulation on electricity generation is very difficult and inherently contains large uncertainty. However, IPL also recognizes that Section 216H.06 of Minnesota's Next Generation Energy Act requires such an estimate be made and updated annually.

IPL has reviewed the 2011 cost estimate recommendation by the MPCA and the Minnesota Department of Commerce, Division of Energy Resources (Department). This reflected a cost range for regulation of CO<sub>2</sub> between \$9 and \$34 per ton of CO<sub>2</sub> emitted in 2012 and beyond --- and is being re-proposed for 2012.

IPL notes that in the analysis, cost projections for the future costs related to the regulation of carbon emissions ranged from \$0 to \$191.50 per metric ton from all the sources used in the review. A final range was selected using a modified statistical averaging process. However, since the reviewed sources used a range of varied assumptions, the averaging process needed to factor in estimated adjustments so that the results would not be skewed by the modeling assumptions. These adjustments are fairly significant, and reduce the confidence level of the final selected range. Moreover, IPL believes that the lower limit may still be overstated based on the following:

1. IPL uses an independent consultant, Wood Mackenzie, Ltd, to provide natural gas, coal and electric market price projections for use in IPL's Integrated Resource Plan (IRP), which are updated on an approximate 6-month schedule. Wood Mackenzie also provides IPL with emission allowance price projections on SO<sub>2</sub>, NO<sub>x</sub> and CO<sub>2</sub> for use in IPL's IRP. In Spring 2010, it was projected that CO<sub>2</sub> regulation may begin in 2013. In each subsequent report, Wood Mackenzie has continued to project a delay in the implementation of a CO<sub>2</sub> price, including the most recent projection in the Fall of 2011. **Currently it is projected that the start date of any CO<sub>2</sub> pricing will not occur until 2022.** IPL has no current information to suggest this start date will not continue to be extended in the future.
2. Wood Mackenzie has also reduced its projected CO<sub>2</sub> price in any given year with each issuance of its projections.
3. Furthermore, IPL is not aware of any program under consideration that would reflect implementation of a CO<sub>2</sub> price within the next ten years, if at all. Four years ago, the possibility of a CO<sub>2</sub> price in some form appeared to be more probable. But there has been a severe continued downturn in the economy since the Minnesota Public Utilities Commission's October 8, 2009 Order Establishing 2009 and 2010 Estimate of Future Carbon Dioxide Regulation Costs. In addition, natural gas prices have declined significantly over the same time period. Increased use of natural gas for electric power production inherently improves CO<sub>2</sub> emission totals, and at this time, natural gas prices are projected to remain relatively low for the foreseeable future.

A few years ago CO<sub>2</sub> legislation was a major federal issue, however today there appears to be very little interest or movement by the United States Congress to adopt CO<sub>2</sub> legislation. This is supported by Wood Mackenzie as well as the general political movement including a lack of support by the President. Additionally Republican presidential candidates have not expressed any interest in supporting national CO<sub>2</sub> legislation.

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IPL can generally support the \$9 to \$34 per ton range as recommended by the MPCA and the Department, but recommend an effective date of no earlier than 2022 as the year for which utilities should start to include these costs for planning purposes.

IPL appreciates this opportunity to provide input regarding this issue.

Respectfully submitted,

/s/ Arshia Javaherian

Arshia Javaherian

Senior Attorney - Regulatory

AJ/tao

Enclosures

cc: Service List

STATE OF MINNESOTA

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

David Boyd  
J. Dennis O'Brien  
Phyllis Reha  
Betsy Wergin

Commissioner  
Commissioner  
Commissioner  
Commissioner

IN THE MATTER OF ESTABLISHING  
AN ESTIMATE OF THE COSTS OF  
FUTURE CARBON DIOXIDE  
REGULATION ON ELECTRICITY  
GENERATION UNDER MINNESOTA  
STATUTE §216H.06

DOCKET NO. E999/CI-07-1199

AFFIDAVIT OF SERVICE

STATE OF IOWA            )  
                                  ) ss.  
COUNTY OF LINN        )

That on the 9<sup>th</sup> day of March, 2012, copies of the foregoing Affidavit of Service, together with the Interstate Power and Light Company's Response, were served upon the parties on the attached service list, by e-filing, overnight delivery, electronic mail, facsimile and/or first-class mail, proper postage prepaid from Cedar Rapids, Iowa.

          /s/ Tonya A. O'Rourke            
Tonya A. O'Rourke

Subscribed and Sworn to Before Me  
this 9<sup>th</sup> day of March, 2012.

          /s/ Wendy E. Howard            
Wendy E. Howard  
Notary Public  
My Commission Expires on September 6, 2012

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