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August 20, 2012

VIA ELECTRONIC FILING

Dr. Burl W. Haar
Executive Secretary
Minnesota Public Utilities Commission
121 Seventh 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. E-999/CI-07-1199

Dear Dr. Haar:

Minnesota Power hereby electronically submits its Comments Regarding 2012
Estimates in the above-referenced Docket. An Affidavit of Service is included.

Please contact me at the number above should you have any questions regarding
this filing.

Yours truly,

A handwritten signature in black ink that reads "David R. Moeller". The signature is written in a cursive style with a large, prominent "D" and "M".

David R. Moeller

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c: Service List



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

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. E-999/CI-07-1199

**MINNESOTA POWER'S
COMMENTS REGARDING
2012 ESTIMATES**

Minnesota Power files these Comments in response to the Minnesota Public Utilities Commission (“Commission”) July 23, 2012 Notice of Comment Period for 2012 Estimates (“Notice”) in the above-referenced ongoing Docket. The Notice requests comments to the Minnesota Pollution Control Agency (“MPCA”) and Minnesota Department of Commerce (“Department”) proposed carbon values and on other issues relevant to the Commission's decision, including the issues identified by the Commission to be addressed in the 2009 update. The Commission requests that interested persons also address the effective date of the values and the appropriateness of using the same proposed values for the 2013 annual update.

Minnesota Power believes that the most accurate approach the Commission can take is to update the previously approved ranges, adjusted for inflation. Similar to previous comments submitted in this Docket, until federal legislation is enacted and more specific regulatory costs are known, Minnesota Power also believes the Commission should update the start date for applying these ranges to no earlier than 2021. This date reflects the continued regulatory uncertainty around carbon policy and is consistent with prior Commission determinations in this Docket.

As was recently discussed in Minnesota Power’s 2010 Integrated Resource Plan and the evaluation of its Baseload Diversification Study (Docket No. E015/RP-09-1088), carbon assumptions, including their dollar level and particularly their timing, are a key determinant of base load modeling outcomes. In that docket, the parties utilized different carbon assumptions and these differences led to significantly different timing and impact outcomes on base load units. In its analysis of Minnesota Power’s Baseload Diversification Study, the Department

based its 2012 start of a carbon cost on the Commission's June 11, 2011 Order in this Docket. The 2012 date originated in the Commission's Order dated December 21, 2007 in this Docket. The Commission's discussion and reasoning on why a 2012 start date was chosen at that time is instructive in how the Commission should proceed now:

CEED, the Environmental Intervenors and OTP state that they do not expect any CO2 regulations to begin affecting electricity costs within the next five years. They reason, consequently, that whatever estimate the Commission adopts should not apply to CO2 projected to be emitted within the next five years. No party advanced a contrary argument.

The Commission finds merit in these parties' argument. Again, **the Legislature directs the Commission to estimate how future regulation of CO2 emissions will affect the cost of generating electricity. Given the legislative standard, it would be inappropriate to apply the proposed cost estimates to CO2 that would be emitted before the regulations could be expected to affect electricity costs.** (emphasis added).

Precisely when any new CO2 regulation would affect electricity costs is a matter of doubt, however. The current version of the most active federal bill addressing CO2 emissions — the America's Climate Security Act of 2007, S. 2191 (Lieberman-Warner) - would begin implementing a cap-and-trade system of regulation in 2012. On this basis, the Commission will direct utilities to apply the cost estimates to CO2 projected to be emitted in 2012 and thereafter.

As the record indicates, the Commission determined, based on the legislative standard, it would be “inappropriate to apply the proposed cost estimates to CO2 that would be emitted before the regulations could be expected to affect electricity costs.” At the time, it was appropriate that the prospective 2012 date was selected based on following the state's legislative standard and the Commission's and the parties' expectations. However, those expectations did not materialize. If the Commission continues to require carbon valuation numbers be applied on all resource planning decisions, the date for application should again be prospective and be updated to reflect when the Commission reasonably expects it is likely that carbon regulations will actually begin affecting electricity costs, given the continued and even greater policy uncertainty around CO2 penalties at this time.

A reasonable projected starting date for carbon cost assumptions is essential to maintain the integrity of resource planning. Unwarranted and potentially grossly incorrect timing for carbon assumptions would skew resource cost calculations and lead to false comparisons of

resource choices, masking the facts regarding what are the most economic choices for customers and likely leading to unnecessarily higher rates.

The MPCA and the Department stated in their July 19, 2012 letter to the Commission: “Given that Minn. Stat. §216H.06 provides for an annual update, establishing an initial effective year of 2013 would ensure that potential CO2 regulation costs are considered in utility planning processes.” However, the state agencies’ recommendation of using 2013 contradicts the legislative direction on how to estimate CO2 impacts which the Commission cites in its 2007 Order. It may also contradict the statute that is the genesis of this Docket – Minn. Stat. § 216H.06. Minn. Stat. § 216H.06 requires that the Commission establish “an estimate of the likely range of costs of **future carbon dioxide regulations** on electricity generation.” (emphasis added). Furthermore, this estimate “must be used in all electricity generation **resource acquisition** proceedings.” (emphasis added). Minnesota Power does not dispute that carbon regulation costs should be considered in utility planning processes and the Company has factored these costs into its various submittals to the Commission. Minnesota Power also understands that “resource acquisition proceedings” could be interpreted broadly to apply generally to resource plans, but if that is the case, then the Commission should also ensure that this range is tied to realistic expectations on when future carbon dioxide regulations may be implemented at the federal or state level.

As discussed above and in the comments submitted by Xcel Energy and Ottertail Power Company in this Docket, there is no carbon penalty existing in 2012 and, further, no date certain for a penalty on the horizon, especially for 2013. Using a 2013 start date for a carbon penalty unnecessarily and falsely increases resource cost estimates for the near term. Given the state of play on carbon at the federal level, Minnesota Power suggested in its Baseload Diversification Study that a reasonable date is 2021, based in part on analysis done by Cambridge Energy Research Associates. The carbon penalty assumption was identified as a critical factor that drove resource recommendations in the environmental scenarios of Minnesota Power’s Baseload Diversification Study. Using an obviously wrong start date for a carbon penalty as a modeling input will result in similarly wrong model conclusions.

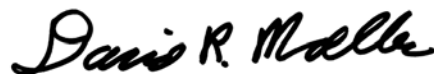
It should be noted that even though federal policies on carbon remain unsettled and their actual timing unknown, ongoing state energy policies requiring renewable energy supplies and

energy conservation and constraining the introduction of new coal fired energy supplies carry an implicit CO2 value that assigns additional cost to Minnesota's electricity generation. In effect, these policies are already placing a price on carbon emissions indirectly. These policies also are clearly propelling a transition in the state's energy supply to a lower greenhouse gas emission basis, as utilities significantly increase their generation supplies of renewable energy. These renewable additions are evidence there is no need for an aggressive date for carbon assumptions to be applied.

Finally, Minnesota Power respectfully requests that the Commission make a determination on CO2 cost application that can be utilized in its next Integrated Resource Plan to be filed by March 1, 2013. The assumption around carbon will be an area of emphasis in this resource plan, specifically as the Commission considers decisions on the futures of Laskin Energy Center and Taconite Harbor Unit 3.

Dated: August 20, 2012

Respectfully submitted,



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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 20th day of August, 2012, she served Minnesota Power's Comments Regarding 2012 Estimates in Docket No. E-999/CI-07-1199 to the Minnesota Public Utilities Commission and the Energy Resources Division of the Minnesota Department of Commerce 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 20th day of August, 2012.

/s/ Sheryl A Miskowski

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

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