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March 9, 2012



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

Dr. Burl Haar
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
Minnesota Docket No. E999/CI-07-1199
Comments**

Dear Mr. Sierks and Dr. Haar,

Enclosed are Otter Tail Power Company's ("Otter Tail's") comments in the matter referenced above. These comments have also been electronically filed with the Minnesota Public Utilities Commission and copies have been served on all parties on the attached service list. 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

wao
Enclosures
By electronic filing
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. E999/CI-07-1199

COMMENTS OF OTTER TAIL POWER COMPANY

Otter Tail Power Company (“Otter Tail”) respectfully submits these comments in response to the invitation from the Minnesota Pollution Control Agency (“MPCA”) and the Minnesota Department of Commerce, Division of Energy Resources (“DOC”), to comment on their recent recommendation for the range of cost estimates for the future cost of carbon dioxide (CO₂) regulation on electricity generation.

The range of \$9 to \$34 a ton beginning in 2012 has remained unchanged for the past two years. The MPCA and the DOC recommend leaving the values and timing as they are. The MPCA’s and DOC’s recommendation stated that they “are not aware of significant changes that have occurred during the past year that warrant a re-evaluation of this recommended range.”

Otter Tail believes the current state of the economy, the upcoming presidential and congressional elections, and escalated tensions in the Middle East have significantly slowed the political momentum of CO₂ reduction policy from a legislative perspective. The probability of having such legislation passed and in-force during 2012 is extremely low.

It is also possible that, in the absence of legislation, EPA regulation under the existing federal Clean Air Act may take the form of generation performance standards and generation efficiency improvements, rather than imposition of a cost per ton of CO₂. While these regulations may have significant cost implications, they may be difficult to quantify on a per ton basis.

Consulting firms who offer energy price and policy forecasts are assuming that the effective start dates for CO₂reducing regulations have been delayed. In the most current Wood MacKenzie fuel price forecast, the assumption used is that the CO₂price will be \$14 (real) per ton beginning in 2022 growing by 6% annually to reach \$26.58 by 2033. Synapse Energy

Economics, Inc., in its 2011 Carbon Dioxide Price Forecast, provided a high, mid, and low CO₂ price forecast. Synapse's mid CO₂ price forecast starts at \$15/ton in 2018 and climbs to \$50/ton in 2030¹. In that same report, Synapse states that "Congress is unlikely to take up an economy-wide cap and trade program in its new session; instead, legislators are likely to focus on policies that promote technological innovations."²

Otter Tail's position is that passage of CO₂-reducing legislation or rules will be delayed significantly later than 2012 and that the range will be reduced. These changes are important enough to alter the results of electricity generation modeling. Cost estimates and timing for the future cost of CO₂ regulation need to be realistic to deliver meaningful modeling results so appropriate generation resource decisions can be made for electric consumers in Minnesota.

Therefore, while Otter Tail supports maintaining the current range of \$9 to \$34 per ton, it recommends delaying the effective start date to at least 2020.

Dated: March 9, 2012

Respectfully submitted,

OTTER TAIL POWER COMPANY

By: /s/ BRIAN DRAXTEN

Brian Draxten

Manager, Resource Planning

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¹ Synapse Energy Economics, Inc, 2011 Carbon Dioxide Price Forecast, February 2011 (Amended August 10, 2011), page 1.

² Synapse Energy Economics, Inc., 2011 Carbon Dioxide Price Forecast, February 2011 (Amended August 10, 2011), page 3.

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
Minnesota Docket No. E999/CI-07-1199**

I, Wendi A. Olson, hereby certify that I have this day served a copy of the following, or a summary thereof, on Dr. Burl W. Haar and Sharon Ferguson by e-filing, and to Bill Sierks and all other persons on the attached service list by electronic service or by first class mail.

**Otter Tail Power Company
Comments**

Dated this **9th** day of **March 2012**.

/s/ WENDI A. OLSON

Wendi A. Olson

Regulatory Filing Coordinator

Otter Tail Power Company

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