

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Gregory Scott	Chair
Edward A. Garvey	Commissioner
Marshall Johnson	Commissioner
LeRoy Koppendrayner	Commissioner
Phyllis A. Reha	Commissioner

In the Matter of the Investigation into
Environmental and Socioeconomic Costs
Under Minn. Stat. § 216B.2422, Subd. 3

ISSUE DATE: October 5, 2001

DOCKET NO. E-999/CI-00-1636

ORDER DEFERRING FURTHER ACTION
ON QUANTIFYING MERCURY AND
PARTICULATES AND MAINTAINING
PURCHASED POWER POLICY

PROCEDURAL HISTORY

On November 30, 2000, the Commission moved in a related proceeding to open an investigation into whether the environmental costs established in Docket No. E-999/CI-93-583¹ should be updated or expanded and whether and how socioeconomic costs could be compared for all generating sources.

On December 14, 2000, the Commission opened the current docket and issued its NOTICE OF INVESTIGATION AND COMMENT PERIOD. The notice allowed interested parties to comment on the appropriate scope of the investigation, in response to the specific questions/issues set out on the attachment to the notice.

On May 3, 2001, the Commission issued its ORDER UPDATING EXTERNALITY VALUES AND AUTHORIZING COMMENT PERIODS ON CO₂, PM_{2.5}, AND APPLICATION OF EXTERNALITY VALUES TO POWER PURCHASES. In that Order, the Commission requested additional comments on three issues, allowing 60 days for those submissions.

¹ See *In the Matter of the Quantification of Environmental Costs Pursuant to Laws of Minnesota 1993, Chapter 356, Section 3*, Docket No. E-999/CI-93-583, ORDER ESTABLISHING ENVIRONMENTAL COST VALUES (January 3, 1997).

In response to the Commission's May 3 request, the following parties submitted comments: Manitoba Hydro, Lignite Energy Council, Nisichawayasihk Cree Nation, Northern States Power Company d/b/a Xcel Energy, Interstate Power Company, Otter Tail Power Company, the State of North Dakota, Great River Energy, the Center for Energy and Economic Development, Western Fuels Association, the Izaak Walton League of America, Dairyland Power Cooperative, Minnkota Power Cooperative, Inc., and Minnesota Power.

The Commission met on August 28, 2001 to consider this matter.

FINDINGS AND CONCLUSIONS

I. BACKGROUND

In conjunction with its decision to update externality values (Order, May 3, 2001), the Commission decided it wanted to consider three issues further: 1) whether to establish cost values for mercury; 2) whether to establish cost values for particulate matter less than 2.5 microns in size (PM_{2.5}); and 3) whether it should continue its policy requiring utilities to apply environmental costs to their analysis of purchased power.

II. SUMMARY OF ACTION

Having considered the parties written and oral comments, the Commission concludes that the record does not support departing from the status quo on any of these three issues. As such, the Commission

- will not establish cost values for mercury or PM_{2.5} and
- will continue to require utilities to apply environmental costs to their analysis of purchased power in resource proceedings before the Commission.

III. MERCURY

The parties did not fully agree on what the Commission should do with respect to environmental costs of mercury emissions from generating facilities, an issue of on-going concern for the Commission. On the one hand, more information is available today regarding mercury than when the Commission adopted environmental cost ranges in 1997. Nevertheless, most parties agreed and the Commission concludes that it would be inappropriate for the Commission to attempt to set environmental cost ranges for mercury at this time.

The Federal Environmental Protection Agency (EPA) intends to set standards for mercury emissions but even that agency believes more research is necessary before it will be able to do so.

Further, it is possible that EPA may use a market approach that will internalize some or all of the environmental costs of mercury. In these circumstances, it is clear that a proceeding to adopt environmental costs for mercury would be controversial and costly. The uncertainties cited in the record could make it difficult for the Commission to adopt environmental cost ranges. Even if ranges were adopted and defended, the Commission probably would have to alter them in the near future if the EPA were to pursue a market approach for mercury.

Accordingly, the Commission concludes that any attempt to adopt environmental cost ranges for mercury should not begin until the direction of the EPA rules is clear and until existing uncertainties are reduced sufficiently to allow a damage-cost analysis to be done. In the meantime, utilities should continue to consider the effects of mercury qualitatively in resource procurement proceedings before the Commission.

IV. PARTICULATE MATTER

The future regulation of particulate matter is in flux. Judicial review of EPA's PM_{2.5} standards has not been completed and EPA continues to conduct studies regarding fine particulates.

The Triangle Economic Research (TER) report² and other record documents provided additional factors that cast doubt on the wisdom of attempting to adopt environmental cost ranges for PM_{2.5} at the current time:

- Since a range for PM_{2.5} presumably would cover some of the same effects as used to develop the ranges for PM₁₀, the latter would have to be revised or eliminated.
- A proceeding to develop new environmental cost ranges for particulate matter likely would have to be conducted as a contested case, which could be long and expensive.

Taking these factors into consideration, the Commission concludes that the existing environmental cost ranges for PM₁₀ should continue to be used at least until current litigation against EPA's standards has ended and the EPA has articulated a clear direction on cost ranges for PM_{2.5}.

V. APPLICATION OF ENVIRONMENTAL COSTS TO PURCHASED POWER

The Commission's current policy is to require utilities to apply the environmental cost values to the emissions of a purchased power source if the specific source is known and to apply the environmental cost values of a reasonable proxy plant (or set of plants) when the actual purchased power source is unknown.

² The TER report provided in this proceeding by Xcel Energy was prepared by Triangle Economic Research, the same firm whose analysis provided the framework for the environmental cost ranges adopted by the Commission in the 1993 proceeding (Docket No. E-999/CI-93-583). The TER report filed in this docket assessed the recent literature relating to environmental costs for mercury and particulate matter.

Some of the commenting entities argued that utilities and the Commission should refrain from applying externality values to any power purchases and others suggested that the length of the contract should matter, with two years and four years suggested as possible breakpoints between short-term power to which the values would not be applied and longer-term power to which values would be applied.

The Commission has considered the parties' various proposals to eliminate or modify its current policy and finds them unpersuasive. Most basically, in resource acquisition proceedings any failure to consider externality values for purchased power creates an unjustifiable bias toward purchased power and away from owned generation. In addition, the Commission notes that several filing entities have followed the Commission's policy in the past in resource acquisition proceedings before the Commission and found it fair and workable. The Commission concludes that its policy is still appropriate and will maintain it.

ORDER

1. The Commission will defer any further consideration of adopting environmental cost ranges for mercury at least until the direction of the EPA rules is clear and until existing uncertainties are reduced sufficiently to allow a damage-cost analysis to be done. In the meantime, utilities should continue to consider the effects of mercury qualitatively in resource procurement proceedings before the Commission.
2. The Commission will maintain the existing environmental cost ranges for PM₁₀ at least until current litigation against EPA's standards has ended and the EPA has articulated a clear direction on PM_{2.5}.
3. In resource application proceedings, utilities shall continue to use the current procedure of applying the environmental cost values to the emissions of a purchased power source if the specific source is known and applying environmental cost values to a reasonable proxy plant (or set of plants) when the actual purchased power source is unknown.
4. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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