March 21, 2003

Dr. Burl Haar, Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, MN 55101-2147

Subject: Comments on Report on Distributed Generation Technical Standards and Tariffs Submitted to the Minnesota Public Utilities Commission by the Minnesota Department of Commerce Docket No. E-999/CI-01-1023

Dear Dr. Haar:

On June 19, 2002, the Minnesota Public Utilities Commission (MPUC or Commission) issued its Order Organizing Work Groups and Setting Procedural Schedule in the Matter of Establishing Generic Standards for Utility Tariffs for Interconnection and Operation of Distributed Generation Facilities. This Order directed the Minnesota Department of Commerce (Department or DOC) to establish work groups to propose technical standards and rate standards governing interconnection of distributed generation facilities with utility electric distribution systems. On February 3, 2003, the Department issued its Report on Distributed Generation Technical Standards and Tariffs summarizing the results of the work groups, including independent recommendations from the Department.

On February 18, 2003, the Commission issued a Notice of Comment Periods in this matter.

Following are the Comments of Great River Energy (GRE) on the February 3, 2003, Report on Distributed Generation Technical Standards and Tariffs. (DG Report)

Introduction

Great River Energy, based in Elk River, is the second largest wholesale electric provider in Minnesota. As a generation and transmission (G&T) cooperative, Great River Energy provides wholesale electric service to 28 electric distribution cooperatives in Minnesota, ultimately serving 550,000 member/consumers. Great River Energy and its member cooperatives are not-for-profit companies owned by the consumers they serve. Great River Energy's 2,500-megawatt generation system comprises an effective mix of base load and peaking power plants, including coal, refuse-derived fuel, natural gas and oil plants, as well as wind generation. The organization owns more than 4,400 miles of transmission line, including the high voltage direct current transmission line that runs from Coal Creek Station in North Dakota to Minnesota, and owns or co-owns 90 substations. Split Rock Energy, Great River Energy's alliance with Minnesota Power of Duluth, pools both organizations' generation resources and electric loads to minimize the risks of the volatile electric market.

Background

The Minnesota Energy Security and Reliability Act (Act), passed by the 2001 Minnesota Legislature, directed the implementation of a number of provisions regarding electric utility system safety, reliability and service quality. Among these provisions, Article 3 of this Act deals with the interconnection of on-site distributed generation. Subdivision 2 of Article 3 directs the Commission to establish, by Order, generic standards for utility tariffs for the interconnection and parallel operation of distributed generation.

While municipal and cooperative electric utilities are not regulated by the Minnesota Public Utilities Commission (with the exception of Dakota Electric Association), Subdivision 3 of Article 3 of this Act does require that such utilities must adopt a distributed generation tariff that addresses the issues included in the Commission's Order in this matter. With this statutory requirement in mind, Great River Energy offers the following Comments in the above-referenced docket.

GRE Comments

Great River Energy will limit its Comments to a few major issues raised in the DG Report including the "must buy" provision, determination of avoided energy and capacity cost, and non-tradable emissions credits.

<u>Must Buy</u>

The Rate Work Group section of the DG Report indicates that a utility must buy all the energy supplied by the DG customer that sells power under the tariffs to be developed. Great River Energy observes that the issue of "must buy" is summarized in the DG Rate Work Group Meeting notes from October 9, 2002. These meeting notes correctly point out that, pursuant to federal law, the only power that a utility must buy is under the requirements of the Public Utilities Regulatory Policy Act (PURPA) that is embodied in Minnesota Rules Chapter 7835.0200. These rules require that utilities purchase output from qualifying facilities at avoided costs. Such purchases are required whether or not the utility needs the power being produced by the qualifying facility. A requirement that exceeds the requirements imposed by PURPA would be preempted.

Consequently, Great River Energy asserts that no other purchases should be mandated, including purchases from DG facilities that are not qualifying facilities under PURPA. Instead, we believe the interest of Minnesota electric utility customers is best served by making wholesale purchases based on Integrated Resource Planning (IRP) criteria, which reflect the requirements of PURPA. Great River Energy follows such criteria in its purchases and ultimately negotiates purchases through bilateral negotiations. Great River Energy believes that this process results in fair compensation to providers of power and reasonable wholesale power costs that are ultimately borne by retail customers.

Avoided Energy and Capacity Costs

Great River Energy supports the concept of determining energy and capacity payments to distributed generation facilities based on avoided cost principles. With this said, we want to emphasize that, while the concept of avoided cost determination may appear straight-forward, the actual determination of such avoided costs can be complicated and involve consideration of many variables. The outline of avoided energy and capacity costs calculations provided in the DG Report represents one method for determining such costs. However, other reasonable calculation methods are possible. To gain a perspective on the many issues that must be considered in avoided cost determination, Great River Energy refers the Commission to the DG Rate Work Group meeting notes of:

October 9, 2002
October 30, 2002
November 18, 2002
December 11, 2002

The fact that the DG Rate Work Group devoted all or portions of four separate meetings discussing avoided costs highlights the fact that this is not necessarily a simple or straightforward determination. As the development of DG tariffs progresses, Great River Energy is committed to calculating and applying avoided energy and capacity costs that properly reflect Great River Energy's resource needs.

Non-Tradable Emissions

In the DG Report, the Department of Commerce proposes that DG owners should receive emission credits for non-tradable emissions. The Department goes on to recommend that these credits should equal the utility's avoided emission costs, calculated as the emission per kWh of the next unit, the utility plans to construct or purchase less the emission per kWh of the DG facility. The Department indicates that this recommendation is not necessarily a consensus position of the Rate Work Group.

Great River Energy is strongly opposed to providing credits for non-tradable emissions. In circumstances where there is no financial benefit to reducing emissions, there is no justification for making any credit payments. The Integrated Resource Planning process already properly accounts for the varying impact of emissions between generation plant alternatives. Any payment of credits for non-tradable emissions simply represents a windfall to DG facilities at the expense of electric utility customers.

Conclusion

Great River Energy appreciates the opportunity to submit comments on this important matter. GRE believes that the ultimate purpose of this proceeding, to facilitate and simplify the interconnection of distributed generation facilities, is a very worthwhile endeavor. In fact, Great River Energy has been a strong proponent of distributed generation among retail customers of our member distribution cooperatives. Such distributed generation, though not operated in parallel with the utility grid, offers many benefits to our retail customers and to Great River Energy. We look forward to further Commission developments in this matter. Great River Energy will then coordinate our efforts with member distribution cooperatives to implement appropriate DG interconnection standards and tariffs in compliance with the provisions of the Minnesota Energy Security and Reliability Act. If you or your staff have any questions regarding these comments, please call Betsy Engelking at (763) 241-2368.

Sincerely,

GREAT RIVER ENERGY

Richard R. Lancaster
Vice President, Corporate Services

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STATE OF MINNESOTA ss COUNTY OF SHERBURNE	Re:	Comments on Report on Distributed Generation Technical Standards and Tariffs Submitted to the Minnesota Public Utilities Commission by the Minnesota Department of Commerce PUC Docket No. E-999/CI-01-1023

AFFIDAVIT OF SERVICE

I, Deb Cavan, being first duly sworn, deposes and says:

That on the 21st day of March 2003, I served the attached comments on Report on Distributed Generation Technical Standards and Tariffs Submitted to the Minnesota Public Utilities Commission by the Minnesota Department of Commerce in the above referenced matter by hand delivery or by United States first class mail, postage prepaid thereon to all persons at the addresses on the attached list:

____

Subscribed and sworn to before me
this 21st of March 2003.

____

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In the Matter of All Electric
Companies Establishing Generic Standards
for Utility Tariffs for 1 Service List
Docket No. E-999/CI-01-1023

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