

March 20, 2003

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

Dear Dr. Haar:

Thank you for the opportunity to comment on the Department of Commerce's *Report on Distributed Generation Technical Standards and Tariffs*.

MMUA would like to take this opportunity to compliment Department of Commerce (DOC) staff for their willingness and ability to work with all the different parties involved in this process.

Before addressing the report proper it may be helpful to give a little background on municipal utilities. Many municipal utilities have provided service to their citizens for over 100 years. These utilities were typically formed for one of two reasons: either there was no electric service in a city; or the residents were unhappy with rates and/or service of a private company. State law allows a city to assume responsibility for providing utility service to its citizens upon passage of a referendum, which is what our member cities have done.

Municipal utilities are political subdivisions of the state of Minnesota. They are generally governed in one of two ways: either by a city council or by an appointed utilities commission. In either case municipal utilities are publicly owned and operated in an open and accessible manner by the cities they serve.

Municipal electric and gas utilities are typically quite small when compared to investor-owned utilities. Minnesota's municipal electric utilities are also considerably smaller on average than their cooperative cousins. Minnesota's municipal electric utilities average approximately 2,500 customers. Only 22 of our municipal electric utilities (17%) have more than 5,000 customers. Fifty-five of our municipal electric utilities (43%) have fewer than 1,000 customers.

We are non-profit entities governed by those we serve. Municipal utilities are publicly owned and governed entities operated for the public benefit rather than for profit, and are in most cases small organizations with limited resources. Perhaps more importantly for

this issue, municipal utilities are typically not vertically integrated. Municipals generally buy all or most of their power from somebody else, and that power comes to the city over transmission lines that are also predominately owned by another entity.

In some circumstances there can be multiple suppliers and transmission providers. One municipal utility, for example, has three of its four substations served from Xcel's transmission system. This is in Otter Tail Power Company's control area. Soon the operational control of this transmission will transfer to TRANSlink, which will be a subset of MISO. The fourth substation is served directly from a WAPA transmission line.

To complicate matters further, the utility's largest customer has 7.5 megawatts of its own generation and, upon its own request, is served from either transmission system for maximum reliability.

This municipal utility and its customer(s) would need to be able to meet the requirements of both or either transmission system and its control area. These are some of the challenges municipal utilities already face in local distribution system interconnections, operation, maintenance and standby tariff design for such customers.

As you can see, municipal utilities need to be viewed differently than investor-owned utilities in regards to Distributed Generation Tariffs. The Minnesota Legislature, in its wisdom, made provision for this in Minn. Stat. 216B.1611, Subd. 3, which requires municipal electric utilities to "adopt a distributed generation tariff that addresses the issues included in the commission's order."

Other policy implications

Much of the position municipals must take in regards to a distributed generation tariff is imposed on us by other entities. For example, 47 Minnesota municipal utilities buy a portion of their wholesale power from the federal Western Area Power Administration (WAPA).

WAPA's Upper Great Plains Region serves wholesale electric customers in Montana, North Dakota, South Dakota, Nebraska, Iowa and Minnesota. WAPA sells and delivers more than 12 billion kilowatt-hours of firm power generated at eight power plants on the main stem of the Missouri River. This power provides enough electricity to serve more than 3 million households. WAPA also owns and operates nearly 100 substations and 7,800 miles of high-voltage transmission lines across this region to deliver this power to the cities, Native American tribes, rural electric cooperatives, federal and state agencies and irrigation districts that are its customers.

WAPA requires that “All generation that is behind the meter of a designated network served load shall be metered and the amount of generation on line during the Integrated System peak will be added to that customer’s load.” In this case, “behind the meter” means the entire municipal utility. Under this WAPA policy, DG will not result in any reduced transmission charges and may increase costs unless it runs in total isolation.

WAPA, in its policy statement, notes, “The Federal Energy Regulatory Commission has set these requirements, to assure equitable distribution of network service transmission charges. Behind the meter generation that is on line during a transmission system peak will not lower the network customer’s bill, because all network customers must collectively pay for a system that would provide for the customer’s entire energy needs in the event the generation is not available.” (See attachment ‘A’)

WAPA also has a detailed Interconnection process (see attachment ‘B’) that many municipal utilities must follow when a person approaches them about a DG installation. This spells out the steps many municipal utilities must follow in detail, and may include a WAPA tariff and contract provisions.

Investor-owned utility control area tariffs also typically establish specific charges for control area and ancillary services. Otter Tail Power, for example, has one charge for generation back up services that would apply when DG exists and is operating in parallel in OTP’s control area. DG has the possibility of causing costs to a municipal utility to a greater degree than it will cause credits from others.

AVOIDED COSTS

The avoided cost discussions and methodologies do not fit well with municipals that have all requirements contracts. In these situations, a municipal power agency is obligated to sell to its members and its members are obligated to purchase all of their power from the agency. This is a contract requirement. Bondholders expect their investment to be protected; utilities have bond covenants to uphold. We expect you will receive comments from Missouri River Energy Services, a municipal power agency, which will examine these issues in greater depth.

Also, since most municipal utilities do not prepare Integrated Resource Plans, a municipal utility will need a different method to determine its capacity needs.

STANDBY RATES

2. Firm Service, Transmission.

As discussed earlier, dependent on existing contracts, DG may not result in any reduced transmission charges and may increase costs unless it runs in total isolation.

We agree that there should be no discount for distribution charges. In some systems, the DG served load would have to never show up on the local system to avoid causing costs to install and maintain infrastructure. Small customers typically install generation to cover power outages by carrying their normal building load. Distribution systems must be sized to carry that same load under normal supply.

Other customers may install generation to serve part of their own load, but want their system running parallel with the local distribution system, so they have instantaneous back up if their generation falters in the least. They expect to be covered by multiple paths all the way back to transmission service. This does not lower costs on the local distribution utility. Typically, it increases substation and distribution construction costs and complicates operational and safety procedures for system maintenance and emergency repairs.

5. Maximum Size to Avoid Standby Charge

MMUA believes the exemption for paying any standby charge should remain at 40 kW or less. This is a well-established threshold. Increasing this to 100 kW could have significant impacts on the costs to other ratepayers of a very small municipal system.

H – Credits Part 2, Distribution Credits

Paragraph b assumes that a system does a full-blown annual distribution planning capacity study. It is not cost-effective for most municipal utilities to do this on an annual basis. Municipals typically look at areas project-by-project and may not do a system-wide study for years if the city is growing slowly.

Publishing this information on the Internet would be a burden for most municipal utilities. It also strikes us as unwise to publish information on distribution system constraints during a time of heightened national security. The trend is to publish less of this type of operational information, not more. FERC has issued a rule on critical infrastructure, the general tenor of which is to restrict access to strategic information. This is a recommendation the Commission may want to ponder for some time before deciding on.

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In conclusion

We appreciate the work groups' efforts to develop principles to guide DG deployment, rather than guidelines to follow to the letter. We appreciate the efforts of the technical requirements work group to keep safety foremost in mind, particularly as it relates to small installations. We also appreciate the difficulty faced by the tariffs work group, which had to deal with complex issues and often-conflicting requirements.

We appreciate the inclusion of No. 4 in the QUALIFICATIONS section, which says, "DG owners and utilities may pursue reasonable transactions outside the DG tariff. However, such transactions are beyond the scope of the work group."

This may be where most municipal utility tariffs will fit.

Sincerely

Steve Downer
Associate Executive Director

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