

STATE OF MINNESOTA

**BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION**

LeRoy Koppendraye
Ellen Gavin
Marshall Johnson
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Gregory Scott

Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of ALL ELECTRIC
COMPANIES Establishing Generic
Standards for Utility Tariffs for
Interconnection and Operation of
Distributed Generation Facilities
Under MN Law 2001, Chapter 212

Docket No. E999/CI-01-1023

**XCEL ENERGY'S
COMMENTS ON PHASE II
REPORT**

INTRODUCTION

Northern States Power Company d/b/a Xcel Energy (“Xcel Energy” or the “Company”) respectfully submits these comments on the Minnesota Department of Commerce (“Department”) Phase II Report of Technical Standards Workgroup Regarding Distributed Generation (“Phase II Report”) in this docket. These comments are provided pursuant to the Minnesota Public Utilities Commission (“Commission”) Notice of Revised Comment Schedule dated March 30, 2003 (“Notice”).¹

WORKGROUP

During its 2001 session, the Minnesota legislature passed Minn. Stat. § 216B.1611, which is designed to encourage expansion of small generation at distribution voltages in Minnesota. This distributed generation (“DG”) initiative

¹ As directed by the Commission, these comments are confined to discussing the process and interconnection issues addressed in the Phase II Report. Matters pertaining to rates, tariffs and other aspects of this docket will be provided in subsequent reply comments which the Commission’s Notice directed to be filed by June 27, 2003.

seeks to tap into the potential for cost-effective and disbursed small generation sources connected to the distribution systems of Minnesota's electric utilities. To facilitate this legislative directive, the Commission sponsored the present workgroup to investigate ways to allow small generators to be interconnected to electric utilities' distribution systems safely and at reasonable cost to utility ratepayers and developers.

Xcel Energy appreciates the Department's efforts at coordinating this diverse workgroup to facilitate appropriate and cost-effective interconnection of distributed generation. The Department's thoughtful and constructive approach facilitated an exchange of ideas cooperatively among stakeholders.

The workgroup format allowed stakeholders to develop a comprehensive DG processes. While it is clear that more work needs to be done and issues will need to be revisited in light of developments at the Federal Energy Regulatory Commission ("FERC") and elsewhere in the nation, the workgroup created a good foundation which Minnesota can build upon and improve over time. While not all stakeholders agreed on all issues, the workgroup process helped resolve many issues and clarified the remaining issues that may require further Commission action. Xcel Energy looks forward to continuing to work cooperatively with the Department and parties as this process continues.

COMMENTS ON THE PHASE II REPORT.

The workgroup used a variety of resources to develop the proposed DG process, technical standards and form agreements. Similar efforts from Wisconsin, California, Texas as well as broader reviews conducted by the National Association of Regulatory Utility Commissioners ("NARUC"), FERC and IEEE were reviewed.² The resulting process described in the Phase II report provides one of the most comprehensive sets of standards in the industry. The Department's Report outlines the resources used and provides useful comparison tables for the Commission to see how other jurisdictions are handling DG issues.

The Phase II Report includes a Proposed Interconnection Process and the associated applications, technical standards, and interconnection service agreements that would allow a DG project to interconnect with a utility's distribution system.

² As described in the Phase II Report, the FERC has an interest in the interconnection of generators to the interstate transmission system, and the line between State and Federal control is not free from doubt. The interplay between State and Federal interconnection requirements is one of the key reasons why future discussions about this process will be beneficial. Generally, FERC asserts jurisdiction over interconnections at transmission voltage and when the generator impacts on the transmission system. Transmission-level interconnections are made pursuant to standard form interconnection agreements and individually filed at FERC, irrespective of the size of the generator.

These documents were drafted to facilitate Commission review and implementation of a uniform State-wide DG process.

Xcel Energy is substantially supportive of the DG process and related documents and offers up the following suggestions for the Commission's consideration. We further support the Department's suggestion that a follow up workgroup be convened after the process has been in place for a couple of years. DG is a rapidly evolving process and it will undoubtedly be useful to update and potentially further streamline the process in light of actual experience.

A. The Identified 'Unresolved Issues' Need to be Addressed.

The Phase II Report identifies four main issues where consensus could not be reached among the participants. Each of these are addressed below:

1. Insurance.

Generally, DG developers advocated for less or no insurance requirements while the utility representatives pointed out that adequate insurance is an important safeguard for the system and ratepayers. Moreover, assuring that generators have the financial wherewithal (through insurance) to pay for problems their equipment may cause to the utility distribution system better matches cost responsibility to the event and minimizes ratepayer cross-subsidization. While Xcel Energy believes that the insurance requirements proposed by the Department are on the low side, the Company accepts them as generally reasonable for the time being under the circumstances. As claims histories are developed and all parties become familiar with the operation and risks of distributed small-scale electric generation, Xcel Energy expects insurance requirements may need to be raised.

Xcel Energy does not support lowering or eliminating the requirements on the grounds of safety and fairness to other customers and the utility. Insurance is necessary to protect against harm that can be caused to the utility system by the interconnected generator. The distribution systems of public utilities are highly complex and interdependent systems. As a result, any generator that is interconnected to the system could, in a worst case scenario, cause harm well beyond the generator itself or even the premises at which it is located. Thus it is necessary for insurance to be set at a level sufficient to address most foreseeable potential harms that could be caused in the event something went wrong.

Xcel Energy recognizes that the cost of insurance is a potential issue for developers. However, that is a cost of doing business for which all interconnected

generators should be responsible.³ Without insurance, the generator shifts the risk to the utility and its retail customers to potentially absorb the cost of harm to the utility's system or its customers. Thus fairness to ratepayers generally should lead to the conclusion that insurance in some amount be required.

2. Timing of Engineering Studies.

The proposed interconnection process properly spells out aggressive time lines for the completion of engineering work by the utility for a specific DG interconnection. Under most circumstances, the studies will be fairly straightforward and can be completed quickly. In particular, the smaller and generally precertified technologies should not pose significant engineering issues absent difficult or unforeseen system issues.

Nevertheless, it would not be appropriate to impose inflexible deadlines. Because the proposed Minnesota standards and process attempt to create a broad and uniform standard covering a wide variety of technologies, it is important that flexibility be maintained to address unique circumstances. In particular, the larger DG projects tend to be more complex and unique and frequently require system modifications to permit safe and reliable interconnection. The flexibility necessary to ensure safety and reliability of every project should be encouraged.

Moreover, every engineer in the workgroup recognized that there are situations where circumstances beyond the utility's control can take more time. When the studies are dependent upon third party input (*e.g.*, the Midwest ISO, neighboring utilities), it may not be possible for the utility to dictate the speed with which that work is done. Moreover, in certain situations, complex system studies must be undertaken that can result in delay. Xcel Energy believes that the proposed Process properly balances all of the competing interests. The utility is required to proceed expeditiously, but the Process recognizes that delays can and do occasionally occur.

3. The Developer Should Bear Study Costs.

Likewise, the cost of undertaking the engineering studies should be borne by the DG developer who caused the cost to be incurred. Xcel Energy respectfully suggests that retail ratepayers should not be called upon to subsidize the efforts of DG developers by absorbing costs incurred to facilitate interconnecting a DG project. As described in the Report, the utilities need flexibility to ensure that the actual cost of engineering work is paid by the organization that caused the work. This cost

³ Xcel Energy notes that in its FERC-jurisdictional transmission voltage interconnections, the Company requires a minimum of \$5 million of insurance.

reimbursement approach is consistent with FERC-jurisdictional interconnections and in many other state DG programs. In addition to avoiding cost shifting to ratepayers, charging the DG developer for the study will encourage use of pre-certified technologies (because study costs will be lower).

Xcel Energy notes that the Process provides for a dispute resolution mechanism that includes bringing a dispute to the Commission for resolution. This mechanism has been agreed to by all parties. Obviously, if a DG developer believes that the utility is improperly trying to pass on engineering costs for which the developer should not be responsible it can invoke the dispute resolution mechanisms and ultimately get a ruling from the Commission as to whether the costs are reasonable or being calculated fairly. This will provide an added incentive to charge only for work properly allocated to the DG project.

4. Standard Operation and Maintenance.

Xcel Energy believes that standardization to the extent possible is appropriate. The issue again is to preserve sufficient flexibility to ensure safe and reliable interconnection of particular projects. While it may be efficient in some cases to have a standard agreement or particular provisions, the desire for standardization must not be allowed to override particular safety concerns or unique circumstances that may exist at a particular site.

Xcel Energy believes, a standard operations and maintenance agreement for very small units (less than 40 kW) can probably be created and we are willing to work toward that goal if the Commission desires. However, larger projects (greater than 500 kW) require significant and often unique deviations from any 'general' requirements and are not suited to standard agreement provisions. In between these two levels, some variability from a standard agreement is usually needed. Creating a standard agreement that would cover the whole range of projects would necessarily have to be very general and full of exceptions to allow the parties to account for actual conditions. General guidelines of that type would not provide much more guidance than the technical specifications and would probably not be very useful.

B. Comments on Attachment 1, Process.

Except as discussed in the 'unresolved issues' section above, Xcel Energy has no substantive comments to the proposed process. While we share the concerns expressed by others about the multiple steps in the process, Xcel Energy believes that the process can work well and can be further streamlined in the future based on actual experience.

C. Comments on Attachment 2, Interconnection Requirements.

Xcel Energy is largely satisfied that the Interconnection Requirements addressed in the Phase II Report will promote the safe and reliable interconnection of DG projects. We respectfully suggest four minor refinements which will further clarify responsibilities.

1. The Area EPS Should Have Access to Locked Devices.

Page 10 ¶ 4.A.ii of the Interconnection Requirements provides that the “Interconnection Customer shall install the necessary padlocking (lockable) devices” Xcel Energy believes having the utility install the padlocking would be preferable. The reason for the disconnect device is to provide a visible, safety opening for utility line personnel to disconnect the device as necessary to ensure safe and reliable system operation. We believe the utility personnel should be in control of locking the DG source.

2. Service Entrance Equipment.

Xcel Energy is concerned about the Interconnection Requirement’s reference to service entrance equipment on Pages 27 and 28; Figure 3 and Figure 4 of Attachment 2. The parenthetical note on this item states that Breaker A (or Breaker B if applicable) may serve as the “visible disconnect” of the DG from the system. Xcel Energy believes safety and reliability concerns dictate a separate disconnect switch located where utility crews can locate and operate it without entering the DG developer’s equipment. During a system contingency relying on access or finding operators at the DG site (if the DG site is staffed at all) could cause serious safety concerns.

D. Comments on Attachments 3 and 4, Application and Data

Xcel Energy has no substantive comments on Attachments 3 and 4.

E. Comments on Attachment 5, Interconnection Agreement.

Xcel Energy is largely pleased with the draft Interconnection Agreement. It reflects many compromises and provides a workable framework that balances the interests of the DG generator and the utility. Xcel Energy’s minor comments below address a few refinements that the Company believes could improve the document.

1. Clean Up items.

Article VII.A.4.c on page 6 of the draft Interconnection Agreement appears to have an incorrect cross reference to Article III.A.5. The correct cross reference should be to III.A.6.

Article VIII.G on page 7 contains a minimum five-business-day response time and a maximum ten-business-day response to modifications to the DG. However, this clause is unclear as to when the clock begins to run. Xcel Energy believes the five day time interval is too short for us to review and respond in most circumstances, particularly depending upon the quality of the information received. We believe the time period should begin to run upon receipt of complete information. We note that this same concept is addressed in paragraph (B) of the accompanying Maintenance Agreement, Exhibit E. While the concept is the same, the language used is not identical as paragraph (B) of the Maintenance Agreement specifies that the time period begins to run upon receipt of complete information. We believe the two clauses should use the same language and suggest that paragraph (B) from the Maintenance Agreement more clearly specifies the parties' obligations. We recommend that the language from the Maintenance Agreement be used to replace the existing clause.

An apparent copying error exists in the Force Majeure Clause, Article XII.A, pages 9 and 10. The last sentence of subparagraph (1) is the same as subparagraph (2). Xcel Energy believes the duplicate language should be deleted.

2. Limitation of Liability.

Xcel Energy recommends adding the following language to Article IX(A), Limitation of Liability.

“Notwithstanding the foregoing, neither Party shall have the obligation to indemnify the other Party for claims brought by claimants who cannot recover directly against the indemnifying Party. This paragraph does not create a liability on the part of either Party to the other or to a third person, but requires indemnification where such liability exists.”

This language further clarifies the relationship between the parties. This language has been used in other DG interconnection contexts and ensures that third party claimants cannot proceed indirectly on a claim that would not be allowed directly.

CONCLUSION

Xcel Energy appreciates the opportunity to provide feedback on this process. We believe this has been a helpful process and the Department did a good job of preparing a thorough report for the Commission’s consideration. We look forward to our continued active participation in this docket and the development of final rules.

Respectfully submitted,

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