STATE OF MINNESOTA

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Leroy Koppendrayer	Chair
Ellen Garvey	Commissioner
Marshall Johnson	Commissioner
Phyllis Reha	Commissioner
Gregory Scott	Commissioner

In the Matter of Establishing Generic Standards for Utility Tariffs for Interconnection and Operation of Distributed Generation Facilities under Minnesota Laws 2001, Chapter 212	**DOCKET No.: E999/CI-01-1023** June 26, 2003

COMMENTS OF THE MINNESOTA WIND ENERGY ASSOCIATION

CONCLUSIONS

MNWEA agrees with the comments of the Distributed Generation (DG) Coalition, which are not repeated here, except for additional emphasis.

We make the following general observations:

(1) The primary purpose of a DG tariff is to remedy the present severely unbalanced bargaining power between potential DG owners and utilities;

(2) Minnesota Statutes require the Commission to use reasonable methods to actively encourage DG;

(3) Any DG tariff should not simply create a neutral approach to inclusion of DG generation facilities as part of a utility's system, but should actively encourage and provide incentives for new DG facilities in the state.

In addition to the recommendations of the DG Coalition, MNWEA specifically recommends the following:

(1) Set insurance requirements low;
(2) Set strict time limits for utility response to requests for DG installation; and
(3) Require the utility to justify the need for studies and the costs of those studies.

BACKGROUND

MNWEA respectfully submits these comments in response to the rates and technical standards workgroups' reports submitted to the Commission by the Department of Commerce on February 3, 2003 and March 22, 2003. Those reports were submitted in response to the Commission's Order Initiating Docket dated August 20, 2001 to establish generic standards for utility tariffs for interconnection and operation of distributed generation facilities as required under Minn. Stat. § 216B.1611, Subd. 2 (1992), enacted in 2001.

MNWEA is aware that it is meeting the due date for response comments but respectfully requests the Commission to accept these initial and supporting comments and include them in its analysis of the issues in this docket. A representative of MNWEA is available to answer questions.

INTRODUCTION

The Minnesota Wind Energy Association is a trade association representing the interests of the businesses in Minnesota that develop wind energy or provide ancillary services to the businesses that develop wind energy in Minnesota. It has been dormant organization for a number of years but is undergoing restructuring in order to again promote the interests of the wind energy business community.

DISCUSSION

General observations:

The primary purpose of a DG tariff is to remedy the present severely unbalanced bargaining power between potential DG owners and utilities.

In 2001, the Minnesota Legislature directly recognized, after many years of enacting statutes to encourage small renewable energy facilities, that tariffs governing DG facilities are necessary to move ahead with installation of these facilities. Minn. Sta. § 216B.1611. The purpose of the tariffs is to "…promote the use of distributed resources…" In addition, the statute authorizes the Commission to develop financial incentives for utilities to encourage "on-site generation" by residential and small business customers.

The underlying necessity for this statute is the severely unbalanced negotiating power between the regulated monopoly electric service providers and the businesses or individuals who seek to install DG facilities. DG tariffs should be structured to bring the negotiating power between a utility and a potential DG owner at least into balance.

Minnesota Statutes require the Commission to use reasonable methods to actively encourage DG.

Not only the new statute, Section 216B.1611, but earlier statutes promote the development of renewable energy resources. Throughout chapters 216B and 216C, statutory provisions encourage development of renewable energy, notably smaller renewable energy generation facilities.

The core statute governing ratemaking by the Commission was enacted when the state first began regulating electric utilities in 1974. Minn. Stat. § 216B.03. It has been amended only once since that time. In 1987, the Legislature amended the statute to require the Commission, "to the maximum reasonable extent" to set rates to "encourage energy conservation and renewable energy use and to further the goals of sections 216B.164 (Small Renewable Energy Power Production), 216B.214 (Conservation Improvement Program), and 216C.05 (energy policy to reduce fossil fuel-based electric generation and increase domestic renewable energy electric generation). The Commission is authorized, and in fact is required, to set rates to encourage renewable energy, particularly small renewable energy power production, which is a subset of DG. This is a core responsibility of the Commission and provides the energy ratemaking policy landscape to which the Legislature added the DG tariffs requirements in 2001.

Any DG tariff must actively encourage and promote new DG facilities in the state, not just create a neutral environment.

Given the new 2001 statute "to promote the use of distributed resources" and the general and larger statutory policy to utilize ratemaking to "encourage" renewable energy, including small generation facilities, any DG tariff must do more than simply balance the negotiating power between a utility and a potential DG owner, it must tip the balance in favor of the DG owner.

To move from the historical climate of actively discouraging DG to one of promoting and encouraging DG, any DG tariff must go further than simply removing barriers such as:

- extreme insurance requirements and excessively expensive studies;
- outdated and excessively burdensome interconnection standards;
- the use of outdated historical avoided cost calculations in an era where electricity demand requires additional supply in the state; and
- cumbersome, unpredictable, and seemingly endless utility processes for negotiating interconnection, rates, and contracts.

Once these barriers are indeed leveled in tariffs, the tariffs must go further to provide actual incentives to install DG, such as:

- strictly predictable decision making processes with limited time requirements;
- prohibiting utilities from requiring the transference of emissions, green energy, or renewable energy credits;
- requiring cost and system requirement justifications for studies related to interconnection and equipment; and
- additional rate credits based on the social, environmental, and long term economic benefits of renewable energy DG facilities as required by Minn. Stat. §216B.03.

Based on the foregoing general observations, MNWEA supports the recommendations of the DG Coalition and further more specifically recommends:

(1) Set insurance requirements low.

The outrageous insurance requirements for net metered, very small renewable energy facilities (under 40 kW in size) have been a huge barrier to installation of these facilities.

If the insurance requirements are set too low for DG generally, utilities have every opportunity to seek their increase in future actions before the Commission. In addition, MNWEA is unsure that anything other than a requirement that insurance be purchased is necessary. It is probable that the market will take care of what is needed. Wind energy installation insurance is a fairly developed business in the United States and internationally. Insurance companies are unlikely to underinsure for all the possible losses involved. This is an area where the market should be able to govern without regulatory requirements.

Setting the insurance requirements low, if at all at this stage, for new DG facilities helps implement the statutory requirement to promote DG.

(2) Set strict time limits for utility response to requests for DG installation.

A business or individual who plans a DG installation must make large investments up front in equipment, studies, more studies, attorney fees, more studies, delays, and finally actual construction before any revenue is received to help pay for these costs. The present long delays, changes in requirements from month to month, week to week, or day to day, delays in acquiring and installing interconnection equipment, and general unresponsiveness of utilities prohibit many businesses and individuals from installing DG and can make installation of DG a monetary donation to the system instead of a revenue producing activity for the business or individual, which inhibits DG installation.

Of course, there should exceptions allowed for unforeseeable circumstances or delays not attributable to the utility, but the burden should be on the utility to justify delay. This is in keeping with "promoting" DG.

(3) Require the utility to justify the need for studies and the costs of those studies.

If a cost range for studies cannot be determined at this juncture, at a minimum the utility must have the burden of justifying both the need for a study and its costs, whether for engineering studies or any other studies require by the utility. One small wind energy project developer in Minnesota was recently required to pay many tens of thousands of dollars to study a switch when one specific switch was the only kind approved by the utility. In addition after the switch study was completed and paid for and after the utility missed two deadlines for ordering and installing the switch, the project developer drove to the manufacturer, obtained the switch, and delivered it to the utility installation staff. As just one part of the process, this experience is more than a simple barrier to installation of DG.

In order to "promote" DG, study requirements and the costs of studies, at a minimum, must be justified by the utility and the utility must respond in a timely manner.

SUMMARY

In summary, the statutory requirements are to encourage and promote DG. Any tariff adopted by the Commission must go beyond simply "leveling the playing field" and tip the balance in favor of potential DG installers.

To summarize our comments and emphasize comments made by others:

- avoided cost must be calculated using the costs the utility's potential next installation or next purchase;
- emissions, green energy, or renewable energy credits must remain with the DG developer;
- additional rate credit must be granted to "promote" and "encourage" DG installations, based on social, environmental, and long term economic benefits;
- Interconnection requirements must be formalized and knowable before a project is planned and must not change during the development of the project;
- Strict utility response timelines are absolutely necessary with limited exceptions and with the burden on the utility to justify delays and changes;
- The utility must justify the need for and costs of all studies.

Finally, we strongly recommend that, once the generic DG tariff docket is concluded, the Commission consider establishing a technical advisory group to which disputes may be taken and quickly resolved. This group could act on tariff disputes or on DG development disputes generally.