MN DG Rate Group, Docket No. E999/CI-01-1023

DISTRIBUTED GENERATION

COMMENTS ON: OPTIONS FOR DEFINING AVOIDED COSTS

- *Please comment on the 2 options for defining avoided energy costs that are described in the attached file.*

Option 'B' for using average monthly on-peak and average monthly off-peak should be utilized for establishing the marginal energy costs. It minimizes the true up impact and provides better price signals for DG customers to forecast the value of selling power back to the grid. While the true-up impact under Option B will be less than under Option A, a true-up will still be necessary.

In order to promote DG in Minnesota and to offer an incentive to new DG entrants, there could also be additional percentages allocated to the DG in the rates paid, in the 10-20% range, over marginal energy costs. In addition, to the extent that an electric utility has "premium green pricing program" in place, such price premium should flow through as a premium percentage to the DG customer providing renewable energy.

- *Please provide proposals for setting an appropriate value of marginal capacity costs when utility does not need to add capacity for a number of years. One option discussed at the meeting was to set the payment at the value of capacity needed in the future (e.g. 10 years in the future), discounted to current dollar.*

Couple of options can be considered:

Option 1: Using a production model, a proxy is constructed by the average of CC, CT, and Coal construction/build costs, and such costs (values) it should be applied at all times. Basically, add this as a 5th bullet point to the marginal capacity costs definition provided by the DOC during our last meeting.

Option 2: Unbundle the retail Demand (kW) charges in the existing tariff and subtract the transmission and distribution capacity related charges, and utilize the generation portion as the marginal capacity cost. Similar to the marginal energy rates, the marginal capacity rates provided should be monthly and not annual or seasonal averages.

- *Please comment on how to recognize factors that impact the value of marginal capacity costs, such as length of the contract.*

A length of the contract does not become an issue if the marginal capacity costs are allocated at all time similar to the marginal energy costs. A twelve-month contract should be sufficient as long as both the marginal energy and marginal capacity costs are provided at all time.

Respectfully Submitted by:

John Bailey	Institute for Local Self-Reliance
Marie Doyle	CenterPoint Energy Minnegasco
John Jaffray	Prairie Gen
Carl Michaud	On behalf of Hennepin County
Carl Neslon	The Minnesota Project
Larry Schedin	On behalf of Hennepin County
Rafi Sohail	CenterPoint Energy Minnegasco