December 5, 2002

Memorandum

TO: **Distributed Generation Rates Workgroup**

FROM: **CenterPoint Energy Minnegasco**
Prairie Gen
Hennepin County
Institute for Local Self Reliance
The Minnesota Project

RE: **Comments requested on (1) Payment for Avoided Capacity Costs and (2) Proposal for Performance of DG Plant**
Docket E999/CI-01-1023

In response to the November 18, 2002 meeting of the Distributed Generation (DG) Rate Workgroup, we submit the following comments on the requested agenda items:

<u>Justification of payment for avoided capacity costs</u>

Electricity demand has risen steadily over time since the invention of electricity. Utilities have needed to add capacity to meet that demand; and DG resources should be compensated for their contribution to meeting that demand.

At any time, a particular utility may not have plans to add capacity because traditionally utilities have added capacity in large blocks, rather than incrementally. With this form of planning, the more steady, incremental nature of DG resources additions does not mesh naturally or particularly well with centralized, long term planning. A utility with surplus generation should not be able to block a Distributed Generation (DG) owner from realizing full value of its capacity and energy. DG resources should not be penalized because the current planning model does not account for incrementally adding capacity. Minnesota law, chapter 212, clearly calls for the promotion of DG resources.

We propose for the utility must-buy scenario, that all utilities, regardless of their capacity requirements should be required to, either, at the DG's choice:

(a) purchase all of the DG's output at a proxy price (under the presumption that the utility can re-sell the same),
(b) facilitate a DG's sale into the market (without complaints about retail wheeling), with the electric utility effectively becoming an agent to sell DG customer's power to the intra or interstate grid, or
(c) 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 costs.

The DG should be able to select the option that best meets the interests of the particular DG. . If the utility wants to keep the capacity, then it must match the highest price option, regardless of the obligatory buy-back price, which merely indicates a floor. DG owners would not be required to sell to the utility, but would retain the right to negotiate the best option for its situation, or to wheel power as a qualifying facility through their incumbent utility, as allowed by Minn. Stat. 216B.164, subd. 4, part c.

Proposal for Performance of DG Plant

We recommend that the performance criteria for capacity payments be no different that that required by MAPP for the accreditation of resources, via the URGE test. If the unit meets the standards outlined then full accreditation and capacity payments would ensue, just as it does with MAPP member generating units today, which receive accreditation and capacity values as a result of their compliance with MAPP standards, NOT as a function of their capacity factor.

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