

There are a few questions that keep coming up in comments/discussion about the capacity payments from a utility to a DG customer and the requirements for the payments to be received. The central issue is a concern about comparable treatment of a DG customer with respect to both a regular retail customer and other supply situations of the utility. The following comments address these comparability issues.

A DG customer that sells power to the utility is different from a "regular customer". A regular customer has a fairly simple and straightforward relationship with the utility where all electric service needs are purchased from the utility. A DG customer has a much more complex relationship because distribution and transmission services are purchased separately from power supply service. Further, they only purchase their residual/supplemental power supply needs from the utility. Because the DG customer is a supplier to the utility as well as a customer, the DG customer is distinctly different from a "regular customer".

All similar entities are treated the same. All suppliers delivering power to the utility are required to provide necessary metering to measure the product they are providing (energy and potentially capacity). If any supplier offers to sell capacity to the utility, the utility will only pay for it if it can meet the utility's capacity needs.

Dispatchability is a key DG supplier difference. In most supply contacts, the purchaser is given an assurance of receiving the supply when it is needed. Allowing the purchaser the ability to dispatch the supply provides this assurance. Most DG suppliers do not offer dispatchability of their supply. Therefore the only way to determine if the supply is received when needed is to measure what is supplied when it is needed (on peak).

The "contract" with a DG supplier is different from the "contract" with a regular customer. Capacity needs and costs are set by contract with the power pool. However, retail recovery of the costs of capacity is set by regulatory approval. To avoid capacity costs from the pool contract requirements, capacity must be measured against that same contract governing capacity costs. That means capacity delivered by the DG supplier must be measured at the peak time when capacity is needed by the utility.

Demand measurement is different for a DG customer. A regular retail customer that receives bundled service from the utility pays for all or at least most of the fixed costs of the distribution, transmission and generation facilities used to serve them through the demand charges. As such, measurement of how much of these systems the customer uses must be done. For simple service requirements where customers do not have time of day metering, the demand measurement taken accurately defines the maximum use of the distribution system, which has little time dependency, but inaccurately measures the use of the transmission and generation systems, which are time dependent. For more complex customers and/or those with a greater importance in the time of electric use, more accurate measurement is made of all the components of the system that a customer uses by using a time of day meter. DG customers fall into this later type of customer as their service needs are more complex and the time when they supply power to the utility is of great importance.

DG Energy and capacity payments are time dependent. To fairly compensate a DG supplier for the energy they supply to the utility payment for capacity must reflect the time when it is delivered. It is agreed that the energy will be paid for based on the time when it is delivered. The same must be true for the capacity provided to the utility.

DG production schedules are made based on the DG owner's business decisions. A resource that is owned by a utility or is secured through contract is dedicated to serving the load of the utility as part of the most economic set of resources available to the utility. The decision to run those facilities or request energy delivery from a power purchase agreement will be based on these load serving requirements purposes. If a utility is not able to dispatch the output of a DG

resource, the decision to run the DG resource may be made based on the owner's economics without regard for the needs of the utility. This type of power purchase arrangement will not be able to be accredited (certified for meeting pool capacity needs). The only way the capacity of this resource can provide value to the utility is if the DG resource is operating at the time of the utility's peak load needs and thus reduces the overall needs of the utility. To know how much value was received, the demand supply of the DG resource must be measured on peak.

At some point, a DG customer becomes an IPP. As the size of the DG resource increases and/or the amount of power the DG resource is expected to deliver to the system increases, the treatment of the DG customer begins to fall under either the Independent System Operator (MISO) or the FERC. Generally at about the 1 MW threshold, a DG resource will become subject to MISO and/or FERC requirements, however, individual utilities may require consideration of Ancillary Service needs and Transmission Service requests at smaller levels. For a regular retail service customer, all of these requirements are part of the total bundled service package they purchase through retail rates. For a DG customer, individual considerations must be made to determine the appropriate application of these requirements.