

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

**COMMENTS ON:**

**Utility Group Proposed Principles for Setting Appropriate Rates**

- 1. At a minimum, the applicable rate structures for should satisfy a “hold harmless” test. That is, the utility must ensure that the rate or rates paid by customers with distributed generation provides at least sufficient revenue to cover the utility’s incremental cost of providing service to those customers. This methodology will ensure that non-participating customers are not economically disadvantaged by the action of customers implementing distributed generation.**

As a class, the group of DG customers should not be subsidized by other classes. New customers in any class are typically added at incremental costs that are higher than fully embedded (or average) costs. Therefore, existing customers cannot be held harmless from new customers. However, unless excepted by state law, one class of customers should not subsidize another as measured by fully embedded costs. Certain technologies of DG should be excepted from the “hold harmless” test because they can provide societal or environmental benefits of producing electric power. Minnesota should adopt regulatory policies that both remove current barriers and provide incentives for those DG technologies.

- 2. Rates should be cost-based and fully recover the costs associated with interconnection, supply and delivery services.**

Rates should be cost-based and directly associated with the provision of service at the point of delivery. ~~and fully recover the costs associated with interconnection, supply and delivery services.~~

- 3. Rates applicable to distributed generation should make an equitable contribution toward the indirect allocated expenses of Operation and maintenance; Customer accounts; Customer service and information; Administrative and general; Depreciation; Interest; and Taxes.**
- 4. Rate Structures should use a Fixed Charge to recover direct costs that are anticipated to be the similar among all customers participating in the DG rate.**
- 5. The rate should be fair, in the sense that customers who impose the same costs on the electric system should pay similar rates.**

Items 3, 4 and 5 need further clarification and discussion. Rates should be designed to promote development of DG. Those who provide similar services and/or provide goods and services to the grid and to consumers should be similarly compensated on a non-discriminatory basis.

6. **If encouraging the development of distributed generation is in the long-term interest of electric utility customers, the applicable rates should be designed to encourage customers to install distributed generation in a way that maximizes benefits, minimizes problems and costs and promotes an efficient use of resources. That is, rates and/or incentives should be used to facilitate customer installation of distributed generation in desired geographical areas that is operated in a way that lowers the utility's existing or future cost of providing service.**

A principle should not start with an "if". The statement ignores DG benefits from customer's perspective or society's benefit. We recommend:

~~If encouraging the development of distributed generation is in the long term interest of electric utility customers, the applicable rates should be designed to encourage customers to install distributed generation in a way that maximizes benefits, minimizes problems and costs and promotes an efficient use of resources by all stakeholders. That is, rates and/or incentives should be used to facilitate customer installation of distributed generation in economically, environmentally, or geographically advantageous areas as determined by consumers. or desired geographical areas that is operated in a way that lowers the utility's existing or future cost of providing service.~~

7. **Cost Savings (Rebates/Credits) should reflect real benefits of DG, not overly optimistic assumed benefits.**

~~Cost Savings (Rebates/Credits) should be value based and the value should reflect the real benefits of DG, not overly optimistic assumed benefits.~~

8. **Rate structures should be easy to administer and understand.**

- Actual or projected costs for the utilities must be competitively bid and market based.
- Rates must adequately recognize all benefits provide by DG
- Rates must use reasonable assumptions: i.e. capacity diversity, etc.

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**Comments on Menu of Services from Utility to DG Customer.**

Regarding Interconnection Services:

- As experience is developed over time, much of the equipment will be pre-certified and will not require lengthy or costly studies.
- Minnesota electric utilities should be required to follow national standards consistently across the state.
- Engineering studies will not be required for all DG installations, particularly small projects.
- Periodic Interconnection tests should be covered as part of normal rate if required of all DG operators, not a separate charge.
- Most of the functional and commission testing will be unnecessary for pre-certified equipment.
- Operating Services must be optional, since most smaller DG installations will not need these services.

Regarding Delivery Services

- Transmission and Distribution services are expected to provide a credit to DG operators.
- Most of the Ancillary Services are required for large central size generation and should not be applicable to under 10 MW DG.

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