

## DG RATE GROUP TARIFF MEETINGS

January 8, 2003

**Docket No.E999/CI-01-1023**

### **I. Summary of Discussion**

#### **A. Procedural Issues**

The last meeting of this workgroup will take place on January 22, 2003. The Department's Report will be filed February 3, 2003. This report will include the notes from meetings along with the Department's positions on issues. The Department intends to recommend to the Commission that parties have an opportunity to provide comments on the report after it is filed.

#### **B. Standby Power When There is Physical Assurance That DG Facility Will Not Take Power**

##### *1. Generation Credit to Standby Charge*

There was general agreement that, when there is physical assurance that the DG facility will not take power, then:

- a) The utility will not be required to provide power for whatever amount that the DG owner and utility mutually agree (contract) will not need to be provided.
- b) The generation credit to the standby charge should be equal to the generation in (a) above that the DG facility will not use.
- c) The cost of the device needed to ensure that the DG facility will not take power from the utility system should be borne by the DG owner, but should be a reasonable cost.

##### *2. Maximum Facility Size to Avoid Standby Charge*

The question was raised about how large a facility could be and still be exempted from paying the Standby charge. DG Owners wanted to allow larger facilities to be exempt from this charge, while Utilities wanted to use the 40 kW limit in federal rules for Qualifying Facilities.

Agreement was not reached on this issue. However, the Department noted that, while strict economic principles would lead to the conclusion that 40 kW should be the limit, this may be an area where a compromise could be used. The compromise is to use the 100 kW limit that, until recently, was in Xcel's tariff and see how much activity there is for facilities between 40 kW and 100 kW. It should be clear that this issue is a compromise and should be reviewed for its effects in practice. It is expected that any

avoided revenues from Standby Charges would be insignificant but this assumption should be checked in practice. If this approach proves to be a problem in practice, such problems should be simple to mitigate.

### 3. *Transmission and Distribution Credit to Standby Charge*

In addition to the generation credit when there is physical assurance that the DG facility would not take electric service above an agreed-upon level, DG owners argued that they should receive a credit in the Standby Charge for the transmission and distribution components of the charge.

However, the counter-argument was made that, once distribution facilities are built, a physical assurance that the facilities will not be used should not result in a distribution credit. Once distribution facilities are built, they are built, and the customer for whom the facilities were built should pay for the cost of the facilities. (However, as noted below, there was some room for discussing a “bulk distribution credit” in certain circumstances.)

However, there may be a valid argument that there is some diversity in the transmission facilities and that a credit may be reasonable. In fact, according to Xcel, Xcel’s Standby Charge already gives firm DG customers a credit of 82 percent of transmission costs to reflect that their use of the transmission system is less than other customers. Non-firm DG customers receive 100 percent credit for generation and transmission.

Based on this discussion, it was proposed that, if there is physical assurance that a DG customer would not take service above an agreed-upon level, there would be 100 percent credit for transmission and generation.

Dakota Electric, which is a distribution-only cooperative, noted that it would have difficulty with giving a transmission credit.

It was noted that the distribution system may be able to be separated into a bulk and non-bulk level, and that credits may be appropriately given to DG Owners for the bulk portion of the distribution system. This issue was left open for further discussion.

The discussion then moved to credits for non-firm DG customers. The difference between non-firm and physical assurance DG customers is as follows:

Non-firm:	the DG customer takes service only when the utility authorizes use
Physical assurance:	the DG customer never takes service above an agreed-upon level

It was proposed that the DG customer could choose either to pay up-front for stranded distribution facilities or to pay in the Standby Charge for the distribution facilities. The replacement cost, depreciated, would be used to calculate stranded costs. Theoretically, either approach should be fair to both the customer and the utility.

The group began to discuss giving credits to DG customers who can help the utility avoid new distribution or other costs by locating in an area that would provide relief for the utility system. It was acknowledged that this idea had merit and should be explored. (This is the DG Owners’ “Red, Green and Yellow” proposal.)

DG Owners proposed that the credits discussed for circumstances where DG Owners give physical assurance that they would not use the utility system above an agreed-upon level also be given in cases where there is not physical assurance. Utilities disagreed with this proposal.

Utilities proposed the following table for Credits to the Standby Charge:<sup>1</sup>

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Category	Physical assurance	Firm	Non-firm
Generation	100%	82%	100%
Transmission	100%	82%	100%
Bulk Distribution	0%*	0%	0%
Non-bulk Distribution	0%*	0%	0%

\* Customers would have an option to pay up-front for stranded facilities

Xcel noted that firm customers should still pay for 18% of generation and transmission facilities to reflect the utility’s requirement to have a reserve margin for firm customers.

DG Owners noted that, with the diversity offered by DG facilities, and the smaller units with lower forced outage rates, a lower reserve margin, say 8% may be more appropriate for DG facilities.

However, utilities noted that, while the reserve margin may be different if the entire system were made up of smaller units, the reserve margin is set for entire system. However, the costs of a system made up of smaller units may also be higher, so 8% of a higher cost system may be equivalent to 18% of a lower cost system.

Beyond this hypothetical discussion, it was noted that any standby customer imposes costs on the current system by requiring standby service to be available.

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<sup>1</sup> Note: The table provided in the meeting showed the amounts DG customers should pay, e.g. 18% of transmission facilities paid by firm customers. This table shows credits to fit with the discussion of credits.

The Department noted that this issue was before the Commission long ago in a proposal pertaining to standby service. The Department intends to review what was discussed at that time.

It was generally acknowledged that this was an issue that was not likely to result in agreement at this point in the group.

## **II. Request for Comments**

To facilitate discussion for the last meeting, participants were asked to provide their comments on the credit issues outlined in comments provided by DG Customers prior to this meeting and handed out in the meeting. (Includes “Red, Green, Yellow” proposal, line losses, renewable credits, etc.) Group participants were asked to provide these comments by **January 17**:

## **III. Next Meeting**

The next meeting is set for:

**Wednesday, January 22, 9:30 to 12:30**

Minnesota Department of Commerce (85 7<sup>th</sup> Place East, Suite 500)