

DG RATE GROUP TARIFF MEETINGS

October 9, 2002

Docket No.E999/CI-01-1023

Summary

A. Principles for pricing energy and capacity service from DG owners to utilities

The group discussed various aspects of this service, including:

1. Do merchant power plants (e.g. no retail load and dispatchable) fit into this proceeding?

The group appeared to agree that these DG facilities are outside the scope of this proceeding. Since they are not native load customers, such plants would likely be exempt wholesale generators (EWG) under federal regulations. See item 8 below for more discussion about EWGs.

2. Is the utility required to buy the power?

The Department noted that the DG tariff would set out the price the utility must pay for power if the DG owner wants to sell it under the terms of the tariff. As such, the utilities would be required to buy the power.

The utilities also asked whether they should be required to buy the power even when they don't need it. The Department noted that the power the utility must buy right now is the requirements under Public Utilities Regulatory Policy Act (PURPA) that is embodied in Commission Rules Chapter 7835.0200.

3. If a utility is not required to buy the power, what principles should apply?

There was discussion about the different kinds of pricing arrangements that can apply if the utility is not required to purchase energy from the DG facility. For example, it was suggested that the current "buyback" tariffs might be used to give DG customers more information about when it the utility is purchasing power on the wholesale market and may instead purchase power from customers on its system who own DG facilities and can dispatch the power so it would be available to the utility in the same way as in the wholesale market.

While not all arrangements were discussed, it was noted that DG owners and utilities have the ability now to negotiate, and nothing in this proceeding is intended to prohibit such negotiations and arrangements in the future.

4. If a utility is required to buy the power, what principles should apply to the rates paid to DG owners?

In a previous meeting, the group had agreed on the following overall principle to be used in discussions for setting rates for the power purchased from DG customers:

Rates should reflect the value of the distributed generation to the utility, including any reasonable credits for emissions or for costs avoided on the generation, transmission and/or distribution system.

The group also agree that “promoting DG” means removing barriers rather than requiring other customers to subsidize DG.

In pricing the value of energy and capacity service from a DG facility to the utility for any purchases the utility must make, the Department proposed the following principle:

Rates should reflect the costs the utility expects to avoid (including as appropriate any purchases the utility avoids having to make in the wholesale market to meet the needs of retail customers).

To the extent practical, those costs should reflect seasonal and peak/off-peak differences in costs.

There were differences of opinion on this issue among the DG owner participants, with some participants wanting rates to reflect the value of energy in a broader wholesale market and others wanting rates not to be differentiated by seasonal or peak/off-peak differences in cost since they would prefer to have a steady stream of income for financing purposes. Still other DG owners wanted to have the power they sold reflect the changes in avoided costs at peak and off-peak periods.

The Department noted that use of the broader wholesale market would go beyond the scope of this proceeding, which pertains to sale of DG energy to the utility rather than the broader wholesale market. However, DG owners could still pursue exempt wholesale generator (EWG) status at the federal level to obtain payment for their energy that reflects the cost of energy on a broader wholesale.

5. What is “avoided cost”?

Several issues were raised about avoided cost. For example, it was noted that the value of capacity during peak periods should be recognized as being more valuable than the value of capacity at off-peak times. It was also noted that the value of energy should reflect the changing cost of energy at peak and off-peak (seasonal and time-of-day) to the extent practicable. Costs of getting information regarding when energy is delivered becomes prohibitive at some point, but the better information available, the more efficient the system becomes in terms of encouraging DG to produce power when it is more valued in the utility’s system. At a minimum, prices paid should reflect differences in summer and winter (seasonal) costs and, preferably, peak and off-peak period costs.

Avoided costs should include the costs of purchases the utility avoids making in the wholesale market to serve retail customer's needs.

6. Does "must buy" mean "must sell"?

The focus on this proceeding is on rates and services from utilities to DG owners. As such, there is not a requirement that DG owners sell power to utilities. However, the value of power from DG owners is greater when the utility can count on obtaining the power for retail customers.

7. Does "must buy" mean the power is scheduled?

Power less than 2 MW would not be scheduled. Then, to the extent there are any reliability concerns, there may need to be ancillary services.

8. Is net metering appropriate for larger sized DG facilities?

The group discussed whether it would be appropriate to extend the current net metering provisions to larger DG customers (the current limit is 40 kW). It was pointed out, however, that the utility does not avoid costs such as that for the distribution line and other fixed charges that are included in the retail rate that is paid for DG production exceeding the amount required for the DG customer's needs. This discussion would require a much larger analysis than allowed in the brief time for these workgroups.

9. Should the issues developed in this proceeding apply to sales by DG owners to entities other than the electric utility of which they are a customer?

As in the previous meeting, the issue was raised about whether this group is discussing sales of power from distributed generators to the wholesale market in general (i.e. selling power to entities other than the electric utility of which they are a customer.) The Department again clarified that the scope of the work group, as indicated in the Commission's June 19, 2002 Order, is focused on two aspects of distributed generation: utilities providing interconnection and backup services to DG customers, and utilities buying power services from DG customers.

Since this issue has come up repeatedly in this and previous meetings, the Department states the following: the scope of this workgroup does not extend to sales by DG owners to the wholesale market in general. The appropriate venue for such sales is through federal rules and regulations as an exempt wholesale generator. The focus of remaining meetings for this workgroup will be on the numerous issues to be discussed regarding the provision by utilities of interconnection and backup services to DG customers, and the purchase by utilities of power services from DG customers.

B. Services Provided by Distributed Generators to Utilities

The group requested further details regarding the services provided by DG customers to utilities. DG participants agreed to provide this information, which will assist in the discussion about which credits would be reasonable under various circumstances.

C. Next Meeting

The Group set the next meeting for:

Wednesday, October 30, 9:30 to 12:30

Minnesota Department of Commerce (85 7th Place East, Suite 500)