Mr. Daniel Wolf  
Executive Secretary  
Minnesota Public Utilities Commission  
121 Seventh Place East, Suite 350  
St. Paul, MN 55101

Re: COMMENTS OF THE MIDWEST COGENERATION ASSOCIATION  
In the Matter of Commission Inquiry into Standby Service Tariffs  
Docket No. E999/CI-15-115

Dear Mr. Wolf:

The Midwest Cogeneration Association (MCA) appreciates the opportunity to comment in the above docket. The MCA is a not-for-profit professional association dedicated to promoting clean and energy efficient combined heat and power (CHP) and waste heat-to-power (WHP) technologies, collectively referred to here as “CHP Systems.” MCA members include representatives of CHP Systems technology manufacturers and project developers, energy efficiency analysts, and energy and environmental consultants and attorneys – a number of whom do business in Minnesota and all of whom have expertise in distributed generation CHP System technologies and projects.

The MCA and several of its members, individually, participated in Commission Advisory Committee meetings on the Commission’s Rules governing Cogeneration and Small Power Production, Docket E-999/R-13-729 and also participated in the Commission’s and DOC’s public meetings on standby tariffs in September and October 2014.

COMMENTS ON REQUESTED TOPICS

MCA concurs in the Department of Commerce’s comment that “much has changed over the last ten years” since the Commission issued its September 28, 2004 order in Docket No. E999/CI-01-1023 and that re-examination of the standards for standby service is warranted. (DOC Report, p. 1) We also agree that it is important that the Commission undertake this review “soon” because the use of standby service is poised to increase in the near future as distributed generation resources, such as CHP Systems, are deployed to meet growth in demand and to offset centralized coal-fired power plant emissions and/or generation.
The following are MCA’s comments on the topics designated in the Commission’s February 12, 2015 Notice.

I. The appropriate scope for such a proceeding, including concerns noted by the Department of Commerce (DOC) in its January 30, 2015 report, including:

- reliability of electric service
- transparency and flexibility
- promotion of economically efficient consumption
- accurate accounting of all relevant value streams, including both costs and benefits
- examination of whether rates reasonably reflect cost-causality and other ratemaking goals
- simplification of input data sets and methodology, where possible and warranted
- how to ensure that standby rates provide neither an incentive nor a disincentive for distributed generation

MCA concurs that all of these are valid considerations in this proceeding. See our responses below for further comments on the appropriate scope of this proceeding.

II. Key goals for the proceeding, such as maintaining fair compensation for the utility, fully addressing rate design considerations, and designing rates based on best practices. Are there specific procedures or approaches to a generic proceeding that would further these goals?

A. MCA suggests the key goals of this generic docket should be to:

Establish regulatory parameters for standby charges which ensure that they are fair and non-discriminatory toward all classes of customers and toward utilities, that they do not jeopardize reliability, that they encourage efficient energy use, and that they do not distort the energy resources market.

B. MCA suggests the following procedural approach to developing these parameters:

1. Step #1: Establish the facts:
   
a) Unpack and examine cost drivers underlying standby charges;

   b) Consider all costs, cost savings and other benefits of distributed generation and centralized power production;

   c) Consider the above in terms of all different types and sizes of distributed generation; and

   d) Consider the above and any “reserve” or reliability issues in terms of differences between large and small utilities and between public utilities and co-ops and municipal utilities.
2. **Step #2: Develop a “best practices template” for standby charges.**
   a) Consider the goals stated in A above;
   b) Consider the facts developed under B. 1. above; and
   c) Consider best practices for encouraging efficient use of energy.
   d) Include consideration of the record created in the DOC workshops and various reports included in the DOC January 30, 2015 Report.

3. **Step #3: Examine various types of standby charges imposed in Minnesota utility tariffs in light of this “best practice template.”**
   a) Not a review of every utility tariff;
   b) Review types of standby charges, e.g. ratcheted standby charges.
   c) Utilize ERC 2014 Report which examined standby charges for all Minnesota utilities.

4. **Step #4: Translate the “best practice template” into proposed regulations.**

III. **Best practices for standby service tariffs, including those practices proposed by the Regulatory Assistance Project (RAP), listed on pp. 12-13 of the DOC’s report.**

   MCA agrees with the RAP list of “best practices,” outlined in the DOC report. See our responses below for further comments and proposals on “best practices” for standby service tariffs.

IV. **Specific design considerations for standby rates, including those proposed by the DOC in its report, on p. 14.**

   MCA applauds and supports the DOC’s list of goals and considerations, and best practices on pp. 13-15 of the DOC Report. We also list here some specific issues which we believe the Commission should closely examine in the course of this proceeding.

1. **The Commission should examine whether existing utility standby tariffs are distorting the market and should particularly examine utility standby tariffs that include “ratchets.”**

   MCA’s concurs with the NRRI Report (p. 4-6) section quoted in the DOC Report (p.4):

   “A most important question is whether current utility standby tariffs, given the total rate picture including the utility parent tariffs, distort the costs and benefits of DG operations, in ways that affect the customer’s or utility’s selection of technologies or operating strategies.”[emphasis added]
MCA member companies, who work to develop CHP projects in Minnesota and throughout the Midwest, repeatedly encounter utility standby tariffs that distort the financial picture for these projects by “ratcheting” the cost of standby service required to meet a brief and rare forced outage such that the charge applies continuously.

The imposition of “ratchets” is antiquated and unwarranted in a modern electric system and is one of the most significant barriers to distributed generation.

2. The Commission should examine claims that the utility or other ratepayers are “subsidizing” distributed generation.

We believe this is a fallacy. See the Attached MCA Paper “The Fallacy of Cost Shifting.” In fact, the benefits brought to the entire electric system and other ratepayers by distributed generation far exceed any costs imposed on the system as a whole. Furthermore, these benefits are paid for by private parties who make large capital investments in electric capacity for load that would otherwise have to be met by ratepayer-funded new generation.

3. The Commission should examine the question of how much, if any, reserve a utility must maintain in order to supply standby power to distributed generators, including CHP Systems, and should focus on the “forced outage rate” during peak hours.

While there are several types of services that may fall within the Minnesota definition of “standby charges,” the charges of greatest concern to MCA members are for service provided during forced outages – i.e. unplanned events – defined as “Backup power” in Commission Rule 7835 Subp. 3. While charges for other types of service, such as supplemental service or service during maintenance, should be equitable, they can generally be planned and appropriately contracted for, and, in the case of maintenance outages, can be planned to take place during off-peak hours.

On the key issue of “backup power,” CHP Systems have a forced outage rate of only 2.5% and, even if that is assumed to occur 100% of the time during peak hours, they have a reliability of 97.5% during peak hours. While utilities focus on the “cost” of supplying standby power 2.5% of the time, they fail to credit the “cost savings” brought to the overall system and other ratepayers by virtue of the fact that a CHP System frees up the utility’s capacity and takes load off the utility’s transmission lines 97.5% of the time.

Modern utilities rely on multiple sources of generation, including distributed generation, all of which have some unplanned outage rate. Unlike a large centralized power plant going down, individual distributed generators generally represent a small percent of the overall generation pool and the diversification they bring to the system actually provides resiliency rather than a threat to reliability.

4. The Commission must “unpack” the elements of standby charges –i.e., capacity, energy, transmission and distribution, and administration – to consider how to structure equitable charges.

To ensure fair, cost driven decisions in this proceeding, it is essential that the Commission delineate and separately consider the individual services provided by the distributed generator and
the utility. As stated in the DOC report, this is not a “one-way” street and considering only parts of the equation distorts the market and inhibits distributed generation.

Pro-rated daily demand charges during forced outages and discounted daily planned maintenance charges, as recommended by the DOC, are an example of pricing policies that are commensurate to the use of services and cost of supplying service by the utility.

5. **The Commission should consider policies that send the appropriate market signal to encourage efficient use of energy.**

We agree with the DOC, Xcel Energy and others that pricing signals are important to ensuring the efficient use of energy. The issue of “grace periods” is one example of a policy that sends the wrong signal. The RAP and ERC Reports provide a useful discussion of this issue.

6. **The Commission should include in the scope of this generic docket two items that arose in the context of Docket E-999/R-13-729 and pertain to Standby Charges.**

   a. **Definition of “Standby Charge”**

The recently adopted Commission Rules for Cogeneration and Small Power Production, Docket No. Docket E-999/R-13-729, includes new definitions of “standby charge” and “standby service” which substantively differ from the statutory definition of “standby charge” adopted in HF 729. See Sections 7835.0100 Subp. 20a and Subp. 20b. *As this definition is fundamental to the subject of this proceeding, we believe it is important that the Commission re-examine its newly adopted definition and revise it to conform to the statutory definition.*

Section 216B.164.2, the statutory definition, states:

“(l) “Standby charge” means a charge imposed by an electric utility upon a distributed generation facility for the recovery of costs for the provision of standby services, as provided for in a utility’s tariffs approved by the commission, necessary to make electricity service available to the distributed generation facility.”

This language contains a *legal standard* for what utilities can charge for standby service. “Standby Charges” must be “for the recovery of costs … necessary to make electricity service available to the distributed generation facility.” This language provides an important directive to utilities and the commission on how they are to establish standby tariffs and also provides a legal basis for challenging unwarranted charges.

The Commission’s new regulatory definition of “standby charge” (“the rate or fee a utility charges for standby service or standby power”) doesn’t include the legal standard stated in the statutory definition. It is also simply tautological and therefore unnecessary. The new

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3 MCA made this comment repeatedly in the context of Docket E-999/R-13-729 and understood this issue would be addressed in this proceeding.
definition of “standby service” doesn’t help. It simply references “commission approved tariffs.” This suggests that “Standby Charges” can be based on whatever tariff the utility chooses to offer and the commission approves. While the commission should consider the legal standard stated in the statutory definition in setting these tariffs, it is confusing to not reference that standard in the proposed regulatory definition.

MCA again asks that the Commission re-examine its newly adopted definition of “standby charges” and revise it to conform to the statutory definition.

b. Applicability of “Standby Charges” at Net-Metered Facilities

HF 729 specifically defined “standby charges” for cogeneration and small power production and limited the imposition of standby charges on net-metered and qualifying facilities of 100 kW or less capacity. That section also provides that standby charges may not be imposed on net-metered and cogeneration facilities with capacities greater than 100 kW “except in accordance with an order of the commission establishing the allowable costs to be recovered through standby charges.”

Subd. 3a (b) states as follows:

“A public utility may not impose a standby charge on a net metered or qualifying facility:

(1) of 100 kilowatts or less capacity; or

(2) of more than 100 kilowatts capacity, except in accordance with an order of the commission establishing the allowable costs to be recovered through standby charges.” [emphasis added]

In adopting this section, we believe the Minnesota General Assembly recognized the barrier unfair standby charges can impose on net-metered cogeneration and small power projects and intended that the PUC review in a generic proceeding such as this the issue of whether utilities should be allowed to apply standby charges to net-metered facilities with a capacity greater than 100 kW.

This issue should be included in the scope of review undertaken in this proceeding.

V. Proposals for tariff and rate design that tie goals, best practices, and rate design considerations to specific utility tariffs.

A. Transparency

1. Utilities should be required to unbundle charges for Capacity, Energy, Transmission, Distribution, and Administration.

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2 Minnesota Statutes, 216B.164, Subd. 2a (l)
3 Minnesota Statutes, 216B.164, Subd. 3a(b)
B. Capacity Charges

1. Capacity charges for partial use customers should be limited to the customer’s use of utility capacity that occurs during "coincident peak" hours.

2. Capacity charges for partial use customers should be adjusted for seasonal demand variation.

3. Capacity charges for partial use customers should be based on their actual use.
   a. Capacity charges should be charged on an hourly or daily basis.
   b. “Ratchets” should not be allowed.
   c. Standby rates should not include “grace periods.”
   d. Standby capacity charges should not be assessed simply because a customer’s generator is operating at less than its contracted capacity, especially when that customer’s utility demand does not exceed its contracted utility capacity.

4. Scheduled Maintenance
   a. Capacity charges should not apply for maintenance, whether peak or off-peak, if the utility is provided with and approves a Scheduled Maintenance Plan.
   b. Capacity charges for scheduled maintenance should not apply in the “shoulder” months.

5. Forced Outages Rates
   a. Capacity charges for forced outages should be based on the market price for capacity "as needed."
   b. Tiered capacity charges based on the number of forced outages actually occurring at a facility may be appropriate.
   c. Utilities should be allowed to use the forced outage rate of the "best performing" distributed generation units in a technology class to estimate the number and duration of forced outages.

C. Energy Charges

1. The rates charged for energy used by standby customer should be the same as for full-time customers in the same class.
D. Transmission and Distribution Charges (T&D)

1. In recognition of load diversity, any additional T & D charges for standby customers should be limited to facility-dedicated T &D.

E. Administrative Charges

1. Administrative Charges should be limited to any additional administrative costs to the utility that are attributable to providing standby service.

F. Supplemental Power

1. Charges for supplying planned supplemental power to partial use customers should be the same as for supplying power to full use customers.

G. Applicability of Standby Charges at Net-Metered Facilities

1. To the extent that the costs sought to be recovered in standby charges are already paid for by net-metering customers, they should not be “double charged” via standby charges.

H. Municipals and Co-Ops

1. The Commission should articulate the bases, if any, on which different standards for standby rates should apply to municipal and co-op utilities than apply to investor owned public utilities.

VI. Comments on any other aspect of the DOC’s report.

MCA applauds the DOC on both its process and its Report. We believe the DOC Report accurately reflects the workshop discussions, presentations, and comments.

Thank you for this opportunity to comment on the scope of this generic docket proposal. MCA looks forward to further participation in this proceeding.

Respectfully submitted,

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