DG RATE GROUP TARIFF MEETINGS

December 11, 2002

Docket No.E999/CI-01-1023

I. Summary of Discussion

A. Avoided Capacity Costs

The group generally agreed on the following issues regarding calculation of avoided capacity costs:

1. The need for capacity is established in the utility's most recent integrated resource plan (IRP).

2. "Need" is defined as an identified need for capacity in the 15-year IRP planning period.

3. Capacity payments should be made for the total DG capacity that is accredited by MAPP's URGE test, regardless of when the power is delivered to the system.

4. The normal length for a capacity addition is assumed to be 30 years.

5. If a contract to purchase power from a DG source begins at the time the utility needs the capacity, then the full capacity payment is made, adjusting only as needed for the length of the contract (i.e. there is no discount for adding capacity sooner than it is needed).

The group discussed how to adjust the payment for capacity to reflect when capacity is added sooner than indicated in the IRP. It was noted that the IRP reflects when large blocks of power are needed, but likely does not generally indicate when smaller increments of capacity could be added to meet the demand for capacity.

The Department requested that each utility provide a discussion of how the IRP process works, in particular how small are the increments for capacity, and how the utility meets short-term capacity needs prior to a significant addition of capacity. We request that this information be provided by Friday, December 20

The following were also noted in the discussion:

- The accreditation process assesses the value of the capacity. For example:
    - To receive a capacity payment, the facility must be dispatchable. That is, the DG owner must either run the facility when requested or turn the rights to run the facility over to the utility. This analysis is part of MAPP's URGE testing.

- Accreditation can be for a certain period of time (e.g. 10:00 a.m. to 6:00 p.m. every day).

- DG owners would like to receive a payment for capacity based on the utility's embedded capacity costs. However, this approach would be inconsistent with the principle that payments should be based on avoided costs.

- "Qualifying facilities" are different than other DG facilities since they are required to be wheeled to other entities.

- Alliant is part of MAIN, not MAPP.

B. Standby Power

The following was discussed regarding standby power:

- The group explored whether it would be appropriate for DG owners to pay less for standby charges if they were more efficient. However, it was noted that, even if the facility were 99.9% efficient, the DG facility would need 100% of the distribution facilities at the time when standby service is needed. These costs need to be recognized and paid for by those who cause the costs on the system.

- Nonetheless, there are some options:

  - DG customers do not have to buy standby power. However, if standby service is not bought, it is not available.

  - DG customers can buy only as much standby power as they need (e.g. 1 MW rather than 5 MW). However, there must be a guarantee that DG facility will never take more than 1 MW of standby service.

  - (It was noted that this guarantee of physical assurance that power over a certain size would not be taken needs to be in the form of a load limiter or other physical limitation or a sufficiently large penalty.)

  - Non-firm standby service is also available. Xcel's standby reservation charge pays for transmission and distribution capacity, but not generation capacity. It is less expensive than firm standby service (which includes generation capacity), but generation capacity may not be available when needed.

  - (If DG takes standby service but uses more than contracted for 3 times in one year, the amount of standby service is restated.)

  - Xcel noted that facilities less than 40 kW are exempt from the need to take standby service.

- **Utilities and DG owners were asked to put forth a proposal for agreement on standby services.**

- In response to arguments that DG benefits need to be recognized, it was noted that benefits of DG need to be reflected in the credits. The credits need to be discussed at meetings in January. Resolving the standby issue would allow for more time to discuss the credits.

II. Request for Comments

Group participants were asked to provide the following. To allow parties to read what is provided by other parties prior to the next meeting, parties are asked to provide this information by **December 20**:

- Utilities are requested to explain the IRP process more fully, including how small the increments for needed capacity are considered to be, and how the utility meets short-term capacity needs.

- All participants are asked to work together to present proposals for agreement regarding standby services.

III. Next Meeting

The Department noted that the second workgroup report to the Commission will be filed December 19, and the final report is due February 3, 2003. The group expects to have 2 more meetings, in January (8^{th} and 22^{nd}) to develop any further possible agreement for the report to the Commission.

The Group set the next meeting for:

Wednesday, January 8, <u>9:30 to 12:30</u>
Minnesota Department of Commerce (85 7^{th} Place East, Suite 500)