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October 10, 2014

Jessica Burdette
CIP Supervisor
Minnesota Department of Commerce
Division of Energy Resources
85 7th Place East, Suite 500
St. Paul, MN 55101-2198

Dear Ms. Burdette,

Great River Energy provides the following initial *Comments* to the Division of Energy Resources (DER) Combined Heat and Power Stakeholder Process and Proposed Policy Recommendations contained within the draft Minnesota CHP Policy Act.

Great River Energy is a not-for profit generation and transmission cooperative that serves the wholesale power needs of 28 retail distribution cooperatives owners throughout the state of Minnesota. While our end use members are predominately residential, the industrial members that are served by our membership have proven critical to the achievement of the energy savings goals that were set forth in the 2007 Next Generation Energy Act.

GRE and its 28 member distribution cooperatives are independent, democratic organizations that are each governed by their respective board of directors.

GRE appreciates the consideration of these comments in the Combined Heat and Power Stakeholder Process.

Acquisition of Unnecessary Resources will Impact Rates

While CHP enables the realization of high overall system efficiency levels, upwards of 80% total efficiency on input fuel, this efficiency is predicated on using the waste heat from a fossil based process. GRE's current generation capacity projections do not foresee the addition of new fossil based generation. Placing a requirement to obtain any amount of generation from a specific type of technology arrangement is unnecessary and will have a negative impact on end use member rates.

CHP Projects should not be a requirement under CIP.

One of the suggested policy proposals includes a formulaic determination of incentives payable to end use members that install CHP facilities. This is counter to current incentive practices, which allow utilities to set incentive levels for various technologies based on utility specific needs, value the technologies provide to the utility, and the incremental cost of the technologies. Establishing a formula for incentives for specific technologies is unprecedented and will drive up overall costs associated with utility CIP portfolios. In addition, these formulaic incentive approaches would cause GRE's members to utilize an inordinate amount of their rebate budgets to incent a single member for a single project. This, in turn would reduce the budget available for more cost effective energy efficiency projects, for which the purpose of CIP was originally intended.

GRE and its member cooperatives work directly with end use members to identify energy efficiency projects that often entail long lead times. CHP projects, and other distributed generation projects are often part of those discussions. However, there are currently limited opportunities for cost-effective CHP deployment within GRE's member cooperative service territories. The technical and economic evaluation of CHP potential cited approximately 8.5% of the total CHP potential in the state as being located within "muni/coop" service territories. Since the study did not break down the potential within cooperative service territories, the amount of potential within GRE's member's service territories cannot be determined. Due to general service territory characteristics pertaining to commercial and industrial loads, an assumption can be made that a greater percentage of this limited potential would be located within the municipal service territory. Based on 2012 data, GRE's All-Requirements membership class had 2,678 members that fell into the larger commercial and industrial member class, with loads greater than 1,000 kVA. Over 97 percent of these members were located within one members service territory. The requirement to derive a specific percentage of energy "savings" from CHP facilities places an unachievable burden on many of GRE's member cooperatives.

Due to the long lead times associated with CHP projects, it is inappropriate to have an annual CHP goal placed on utilities. This does not recognize the significant complexity associated with these projects, and the often multi-year planning process associated with their development.

One of the most troubling aspects of the proposed policies is the inclusion of an “Alternative Compliance Payment,” which would be required of utilities that elect to discharge their obligations under the Minnesota CHP Policy Act. This compliance payment mechanism does not recognize the challenges associated with different utility business models, the available CHP development potential, or the long term nature of CHP developments. Furthermore, it is unclear that the DER’s efforts to further the development of district energy through the utilization of these funds would occur within the service territories of the utilities that are subjected to the “Alternative Compliance Payment”. GRE’s members should not be required to make payments to the state due to an inability to meet an unachievable goal. GRE’s member should also not be required to pay for CHP projects that occur outside of their service territories and provide no direct benefit to the utilities that provide these funds.

CHP is currently an available option under CIP

Minnesota Statutes currently include provisions for capturing waste heat from industrial processes and utilization of waste heat for electrical generation to be accounted for under CIP. GRE appreciates the flexibility that the current CIP statutes provide and has tried to utilize these provisions to the extent practicable. The establishment of a specific goal, with the proposed intent of doubling the amount of CHP capacity in Minnesota does not fully recognize the practical and economic challenges associated with these projects. To the extent that there are members that express an interest in pursuing a CHP project GRE and its member cooperatives have, and will continue to work to evaluate these projects. However, the economic realities associated with these projects have prevented them from moving forward.

There are a number of recommendations that have been identified for the DER to consider “upon passage of the Minnesota CHP Policy Act.” These include establishing a “Value of CHP”, establishing clear policies for the inclusion of CHP costs in electric rates, and having a “high-level” dialogue with the Mid-Continent Independent System Operator to create rules that encourage maximum dispatch of CHP units.

In addition to these recommendations, there are a number of outstanding questions concerning the treatment of CHP flexibility contained within the existing statute. Providing clarification around how a utility could avail itself of the current CHP provisions could result in a greater amount of CHP development and is deserving of consideration as an additional evaluation scenario.

These recommendations and additional policy clarifications could begin prior to the passage of legislation that would mandate a specific amount of CHP development. Such an effort would better inform subsequent efforts to increase the amount of CHP developed within the state of Minnesota.