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SUBMITTED VIA EMAIL

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Minnesota Department of Commerce
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**Re: Comments of the Midwest Cogeneration Association;
Minnesota Department of Commerce
Draft Combined Heat and Power Action Plan**

Dear Ms. Burdette:

The Midwest Cogeneration Association (MCA) appreciates this opportunity to respond to the Department of Commerce's request for comments on its Draft Combined Heat and Power Action Plan ("Draft Plan").

MCA applauds the Department and the Draft Plan. The Draft Plan identifies a number of "priority issues" for Combined Heat and Waste Heat-to-Power (referred to as "CHP" herein) deployment in Minnesota. The Draft Plan also identifies a number of valuable "action items" for addressing these issues.

MCA, however, is concerned that a number of issues that came up in the Fall 2014 workshop and public comment process are not addressed in the Draft Plan. Specifically, the Draft Plan does not address:

- CIP Pathways for Privately-Owned CHP
- CHP Ownership Issues Beyond Financing
- Utility Avoided Cost Rate Calculation
- CHP in Integrated Resource Planning

Discussion of these additional "priority issues" and "action items" are incorporated in our comments below.

1. Priority Issue: Standby Rates

Proposed Action Items: Continue Stakeholder Engagement through a Generic Proceeding on Standby Rates

MCA Comments:

This is a high priority for MCA Members in Minnesota. We hope the PUC Generic Docket will provide a forum for a thorough review of “cost causation,” market diversity and reliability, coincident peak/non-peak rates, planned outages, CHP attributes and appropriate capacity crediting, and practices such as Standby Charge “ratchets” which are employed by a number of Minnesota.

2. Priority Issue: CHP Evaluation Methodology and Criteria

Proposed Action Items: Establish CHP Energy Savings Attribution Model

MCA Comments:

In the April 28th Webinar, Stefano Galiasso of the Energy Resources Center provided an excellent overview of the CHP energy savings methodology recently incorporated in the Illinois Technical Resource Manual. MCA participated in the Illinois Stakeholder Advisory Group (SAG) CHP Subcommittee that developed that methodology. We believe it is a valid approach to calculating the energy savings from CHP systems considering the “site” and the “source” (i.e. the grid); however, it should be noted that other states use other methods for calculating CHP energy savings. The Illinois method was adopted as a compromise following extensive discussion in the Illinois SAG. While that method is fairly precise, it is not the most transparent approach and it is not the most generous to CHP. For example, it yields relatively small energy savings for smaller CHP projects.¹

Where the goal is to create an incentive program that moves the market and the deployment of CHP technologies, the greater transparency and simplicity of the Massachusetts approach, which credits 100% of CHP electricity production, may be preferable. We would encourage the Department to consider all of the various approaches to crediting CHP energy savings used in different states in light of its goals, rather than simply adopting the Illinois approach. The proper approach may vary depending on the particular incentive program or portfolio program in which it will be used.

3. Priority Issue: Mapping CHP Opportunities

¹ This was deemed acceptable by the Illinois SAG only in light of additional incentives that Commonwealth Edison has proposed to offer CHP projects of 1 MW and less. The ComEd Pilot CHP Program which is expected to be available as of June 2015 will provide \$0.07/ kWh saved (based on first 12 months) and up to an additional \$50K to CHP projects of 1 MW or smaller for upfront design and interconnection costs.

Proposed Action Items: Map CHP Opportunities at Wastewater Treatment Facilities and Public Facilities

MCA Comments:

MCA supports this proposal. One of the main benefits of this mapping will be in making WWTP and other public sector facility owner/operators aware of CHP Systems as an opportunity for their facilities. The Department should consider the audience for this information in how it designs the work product and “rolls out” its findings. Education and outreach on WWTP CHP opportunities should be included in the Education Action Item below.

4. Priority Issue: CHP Ownership Problems and Solutions

Proposed Action Items: Leverage Existing Financing Programs Applicable to CHP

MCA Comments:

A. Proposed Existing Financing

MCA would like to better understand the various financing programs referenced on page 39 of the Draft Action Plan and believes that providing more information, education and outreach on these programs would be very helpful.

It would also be useful to critique these programs and consider whether changes may be required to make them work for CHP financing:

- Impediments for actually accessing the program for CHP, e.g. PACE financing is only available where local governments have adopted the program and have a sufficient tax base to cover the financing;
- Several programs are limited to the public sector. Is there any way that ESPC financing, for example, might be made available for private sector CHP projects?

B. Other Ownership Issues Need to Be Addressed

There are a number of other “ownership” issues – beyond financing—that were discussed in the workshop meetings, but are not included in the Draft Action Plan. For example:

Private Ownership: Third party owner/operators and sales limits;

Utility Ownership: Utility/host partnership issues;

Both: Risk of “stranded resource” issue; Statutory 50 MW limit on CHP

We believe it would be helpful for the Department to provide a forum for further consideration of these issues.

5. **Priority Issue:** **Education and Training Needs and Options**

Proposed Action Items: Expand Education and Training Resources

MCA Comments:

MCA would welcome Department led webinars and workshops to promote a better understanding of CHP, particularly by end users. We also suggest that the Department create a CHP page on its website to highlight CHP as an energy efficient technology. That page could provide links to state and federal programs and resources for those interested in pursuing CHP projects. This page might include a list of existing CHP projects in Minnesota and contact information for vetted engineering firms and project developers.

6. **Priority Issue:** **Adapting CIP for Supply-Side Investments**

Proposed Action Items: Develop and Clarify Electric Utility Infrastructure Policy

MCA Comments:

A. Proposed EUI CIP Pathway

We understand that the EUI pathway pertains solely to *utility-owned* CHP. If this is a useful and fast-track for allowing utilities to make investments in CHP, MCA supports this proposal.

However, we are concerned about the process for the TRM review of CHP. We are not familiar with the Minnesota TRM process and cannot comment on how CHP would fit into any established EUI resource profile. But, our experience in other states is that CHP does not fit easily into established TRMs that are focused on demand-side management programs. The members of TRM Advisory Committees are generally not accustomed to reviewing supply-side or custom projects such as CHP.

For example, the Illinois Stakeholder Advisory Group and its TRM Committee is a very large group that has historically reviewed demand-side management projects. Many of its members have no knowledge or interest in CHP. Further, CHP poses some very different issues. Therefore, to efficiently review the elements of the Illinois DCEO and ComEd incentive programs in 2014-2015, the Illinois SAG created a CHP Subcommittee that reviewed and debated the elements of the CHP programs, including the energy savings methodology.

We recommend that the Minnesota TRM Advisory Committee create a CHP Subcommittee to undertake the development and clarification of the EUI Policy that is recommended in this item.

B. This Proposal Would Not Appear to Address Privately-Owned CHP

MCA is concerned that the Draft Action Plan does not appear to include work toward developing a pathway for privately-owned CHP projects to be incorporated in the CIP or otherwise included in Minnesota utility energy efficiency portfolios and receive related incentives. As the Department is aware, the Fall 2014 workshops, the FVB Study, and many of the comments generated in that process included significant discussion of how privately-owned CHP can be incorporated in the CIP, included in a “supply-side” carve out in the CIP, or included in an alternate portfolio standard.

Energy efficiency portfolio programs incentivize privately-owned CHP by harnessing the power of the marketplace to generate CHP projects. Relying on utility-owned CHP alone may not do that.

For private sector investment, utility rebate programs, more than financing, are key to reducing the timeframe for return on investment which is a major impediment for CHP project development. We believe there is growing recognition of this in the Midwest. The Department is familiar with the recently adopted DCEO Pilot CHP Program and the Commonwealth Edison Pilot CHP Program in Illinois. Additionally, Dayton Power & Light has just announced a similar CHP incentive program in Ohio. (See Attachment A- DP&L CHP Incentive Program description.)

We urge the Department to include in the Final Action Plan a pathway for privately-owned CHP to be incorporated in the CIP or otherwise included in utility portfolio incentive programs. We suggest that this be added as another Action Item under the Priority Issue “Adapting CIP for Supply-Site Investments.”

7. Additional Suggested Priority Issue: Avoided Cost Rate Calculation

Proposed Action Items: Review Minnesota Utility Avoided Cost Rate Calculations

MCA Comments:

The Department has not recommended a review of how utility avoided cost rate calculation impacts the marketplace for CHP/WHP and other distributed generation. This is a major issue impeding CHP/WHP projects which MCA raised in its prior comments.

Minnesota utility power buyback tariffs often do not reflect the higher avoided costs of future generation. Rates that are improperly based on current marginal costs are insufficient to finance distributed generation projects of the future. As a result of unrealistically low avoided cost calculations and rates of payment, CHP projects are often sized only to offset a facility’s own electricity consumption without sales back to the grid. In some instances, this is a less cost effective and less efficient use of a valuable distributed generation resource.

MCA suggests that the Department commission a study of Utility Avoided Cost Rate calculations to determine if those rates reflect the true cost of future generation.

8. Additional Suggested Priority Issue: CHP in Integrated Resource Planning

Proposed Action Items: Propose a Regulatory or Legislative Amendment to Require CHP Be Considered in Utility IRPs

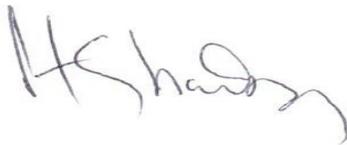
MCA Comments:

FVB proposed a new IRP requirement that utilities must consider the availability of cost effective CHP to meet projected future demand prior to making other investments in new capacity. MCA supported this proposal in its comments earlier in this proceeding and we suggest that this be included as another Priority Issue in the State Action Plan.

Minnesota utilities currently do not consider CHP in their planning for generation to meet future demand. Further, they have no incentive to include third party owned generation in their portfolios or plans. FVB's proposed legislation would remedy this discrimination against CHP generation, including third party owned distributed generation, and ensure Minnesota ratepayers are paying for the most cost efficient new generation. Integrated Resource Plans should review the availability, costs and benefits of industrial and commercial CHP compared to that of other new generation before utility investments in other resources are approved.

MCA appreciates this opportunity to provide comments and we look forward to continuing to work with the Department and other stakeholders in this proceeding.

Sincerely,



Patricia F. Sharkey
Policy Director
Midwest Cogeneration Association