

E-002/RP-91-682 ORDER APPROVING DISPERSED GENERATION PLAN

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm	Chair
Tom Burton	Commissioner
Cynthia A. Kitlinski	Commissioner
Dee Knaak	Commissioner
Norma McKanna	Commissioner

In the Matter of the Petition of  
Northern States Power Company  
for Approval of its 1991  
Resource Plan

ISSUE DATE: April 5, 1993

DOCKET NO. E-002/RP-91-682

ORDER APPROVING DISPERSED  
GENERATION PLAN

**PROCEDURAL HISTORY**

**I. Proceedings to Date**

On October 1, 1991 Northern States Power Company filed its first biennial resource plan under Minn. Rules, parts 7843.0100 to 7843.0600. The plan listed dispersed generation as one of many strategies the Company intended to use to meet future need, but provided no details on that strategy. On April 14, 1992 the Company filed its reply to other parties' comments on its resource plan. The reply included a description of the Company's plans for dispersed generation. In its Order approving and modifying the Company's 1991 resource plan, the Commission deferred action on the dispersed generation proposal and established time lines for comments on the proposal by other parties.

Two parties filed comments on the dispersed generation plan: the Department of Public Service (the Department) and Polsky Energy Corporation (Polsky Energy). The Department recommended approving the plan, with additional reporting requirements. Polsky Energy urged the Commission to give careful consideration to the role of competition in providing cost-effective dispersed generation.

The dispersed generation plan came before the Commission on March 18, 1993.

**FINDINGS AND CONCLUSIONS**

**II. The Company's Plan**

"Dispersed generation" refers to baseload or standby-peaking generation located at customer sites. The Company proposes to develop up to 425 megawatts of dispersed generation by the

year 2000. Approximately 275 to 340 megawatts will be baseload capacity from cogeneration facilities; between 85 and 150 megawatts will be standby-peaking capacity from backup generators on customer premises.

No specific baseload projects have yet been identified. They will be major projects, requiring two to three years of development, and will be brought to the Commission as they are developed.

Three standby-peaking projects are underway, with two more in the planning stages. The Company intends to use these five projects to gain practical experience with dispersed generation. All the projects will be under five megawatts and will be developed in cooperation with customers who need backup generation. Two of the customers with existing projects are hospitals; the other is a computer operations center. In all cases, the customer contributes to the capital costs of the system, which is owned, operated, and maintained by the Company. The five standby-peaking projects constitute a single demonstration project designed to provide a solid foundation for future Company efforts in the area of dispersed generation.

The Company considered dispersed generation a resource option worth developing for several reasons. Disbursed generation can supply part of the system's future need for peaking capacity. It can meet specific customers' needs for backup generation, arguably at lower total costs than customer-owned backup capacity. It can improve overall system reliability. It can reduce transmission and distribution costs and losses. It can help position the Company to exploit new technologies, such as fuel cells, being developed outside the traditional large power plant context.

The Company presented cost estimates placing the costs to the Company of dispersed generation below the costs of what it viewed as the next least-cost alternative, gas-fired peaking turbines.

### **III. Commission Action**

The Commission agrees with the Department that the Company's dispersed generation plan, including its standby-peaking demonstration project, should be approved. Dispersed generation is clearly a strategy for meeting future need that merits careful study. Its potential for improving system reliability, reducing transmission and distribution losses, and nurturing new technologies cannot be overlooked. Furthermore, any serious evaluation of its potential requires the level of commitment and investment proposed by the Company.

The Commission notes the comments of Polsky Energy, suggesting that competition in supplying dispersed generation to the Company could lower total ratepayer costs. The Commission will require the Company to discuss the potential for competition in dispersed generation in its 1993 resource plan filing.

The Commission will also require that filing to explain in greater detail the cost-effectiveness test the Company will use to evaluate the peaking-standby demonstration project, including the internal cost or standard used to compute avoided costs. The filing should also update the Company's dispersed generation plan to reflect any information acquired since it was first proposed, treat dispersed generation consistently in all schedules, and provide a breakdown between baseload, intermediate, and peaking additions. Finally, the 1993 resource plan filing should provide as much detail as possible about the timing and magnitude of each dispersed generation project anticipated as part of the 1993 plan.

#### ORDER

1. The Commission accepts and approves Northern States Power Company's dispersed generation plan, including its standby-peaking demonstration project, filed April 14, 1992.
2. Northern States Power Company's 1993 resource plan filing shall explain in detail the cost-effectiveness test the Company proposes to use to evaluate the peaking-standby demonstration project, including the internal cost or standard used to compute avoided costs.
3. Northern States Power Company's 1993 resource plan filing shall update the Company's dispersed generation plan to reflect any information acquired since it was first proposed, shall treat dispersed generation consistently in all schedules, and shall provide a breakdown between baseload, intermediate, and peaking additions.
4. Northern States Power Company's 1993 resource plan filing shall provide as much detail as possible in regard to the timing and magnitude of each dispersed generation project anticipated as part of the 1993 plan.
5. Northern States Power Company's 1993 resource plan filing shall discuss the potential for competition in dispersed generation.
6. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster  
Executive Secretary

(S E A L)