

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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In the Matter of the Petition of Dakota Electric
for Approval of its Rider for Distributed
Generation Service, Rider for Standby Service,
and its Process and Technical Requirements
Document

ISSUE DATE: February 17, 2006

DOCKET NO. E-111/M-04-2049

ORDER APPROVING TARIFF RIDERS
AND RELATED DOCUMENTS AS
MODIFIED

PROCEDURAL HISTORY

On September 28, 2004, the Commission issued its ORDER ESTABLISHING STANDARDS, governing the terms under which a retail electric utility would interconnect with a customer's plant that uses certain "clean" fuels to generate up to ten megawatts (MW) of power for use on-site by the customer, with any unused electricity sold to the utility.¹ The Commission referred to these plants as "distributed generation" (DG). The Commission directed retail electric public utilities to file tariffs consistent with the new standards.

On December 28, 2004, Dakota Electric Association (Dakota Electric or the Cooperative) proposed terms under which it would interconnect with and support the operations of a DG customer.

By August 8, 2005, the Commission had received comments from the Minnesota Department of Commerce (the Department) and collectively from CenterPoint Energy, Frauenschuh Power Development, Hennepin County's Department of Environmental Services, the Institute for Local Self-Reliance, the Izaak Walton League of America's Midwest Office, Korridor Capital Investments LLC, the Minnesota Chamber of Commerce, and The Minnesota Project (collectively, the DG Coalition).

On September 2, 2005, Dakota Electric filed reply comments.

This matter came before the Commission on December 20, 2005.

¹ *In the Matter of Establishing Generic Standards for Utility Tariffs for Interconnection and Operation of Distributed Generation Facilities under Minnesota Laws 2001, Chapter 212, Docket No. E-999/CI-01-1023, ORDER ESTABLISHING STANDARDS (September 28, 2004).*

FINDINGS AND CONCLUSIONS

I. Background

Most electricity is generated at large power plants, then transmitted long distances to where it is needed. In contrast, distributed generation refers to the practice of generating electricity with multiple, dispersed power plants, typically located closer to the customer being served. Many benefits have been attributed to distributed generation, including reducing the demand on long-distance transmission lines, enhancing reliability, ameliorating environmental consequences and increasing customer choice.

The potential for these benefits would be lost, however, if the process of connecting small generators to the electric grid proved too dangerous, or the process of negotiating such connections proved too burdensome. To avoid this outcome, the Legislature directed the Commission to establish parameters for interconnection that would balance the needs of the utility and its ratepayers with the needs of the small generators. Utilities would then propose tariffs establishing standardized terms for interconnection consistent with the Commission-approved parameters. Minn. Stat. § 216B.1611, subd. 2.

As noted above, the Commission adopted appropriate standards on September 28, 2004, and directed utilities to file distributed generation tariffs that conformed to the standards. Dakota Electric's response to that order is the subject of the current docket.

II. Dakota Electric's Proposal

Dakota Electric's filing contained the following documents:

- Schedule 61, a new DG "Rider" (that is, terms for an optional service offered to customers who also accept some other "basic" tariffed service) establishing terms governing the relationship between Dakota Electric and a DG customer.
- Schedule 60, a revised Standby Service Rider establishing terms under which Dakota Electric would supply temporary service in the event a customer's generator proves to be inadequate to meet the customer's needs.

In addition, Dakota Electric's filing incorporates by reference the process and technical documents adopted by the Commission in its ORDER ESTABLISHING STANDARDS, consisting of the following:

- A "Proposed Interconnection Process for Distributed Generation Systems,"
- A statement of "Distributed Generation Interconnection Requirements."
- A "General Interconnection Application" form.
- An "Engineering Data Submittal" form.
- A "Proposed Interconnection Agreement."

These documents set forth the minimum standards for a small "Generation System" to interconnect with the "Area Electric Power System" or "Area EPS." The Area EPS is defined as the entity that serves the "Local EPSs" such as distributed generators, and typically has primary access to public rights-of-way. Within an electric utility's service area, the Area EPS is the electric utility.

In the interest of facilitating the DG process, Dakota Electric proposes to post these documents on its World Wide Web site, but to substitute the more familiar “Dakota Electric Association” for the less familiar label “Area EPS.” This conforms to the Commission’s past practice.²

III. Analysis and Commission Action

The Department supports most aspects of Dakota Electric’s proposal as filed, but both the Department and the DG Coalition recommend modifications and clarifications. Dakota Electric has agreed to some of these modifications and clarifications, but not others.

The Commission appreciates the efforts of all parties in fashioning workable policies for removing unwarranted impediments to DG development. Having reviewed the record of the case and the arguments of all parties, the Commission will adopt Dakota Electric’s revised proposal as revised and clarified in the Ordering paragraphs. Where parties did not reach agreement, or where the Commission’s reasoning in adopting the parties’ agreement warrants elaboration, the rationale for the Commission’s decision is set forth below.

A. Annual DG Interconnection Report

Minnesota Statutes § 216B.1611, subdivision 4(b), states as follows:

Every electric utility shall file with the commissioner a distributed generation interconnection report for the preceding calendar year that identifies each distributed generation facility interconnected with the utility's distribution system. The report must list the new distributed generation facilities interconnected with the system since the previous year's report, any distributed generation facilities no longer interconnected with the utility's system since the previous report, the capacity of each facility, and the feeder or other point on the company's utility system where the facility is connected. The annual report must also identify all applications for interconnection received during the previous one-year period, and the disposition of the applications.

The DG Coalition argues that this information will provide a baseline for evaluating whether the new DG tariffs and policies are actually achieving the result of promoting distributed generation. Consequently, the Coalition asked the Commission to order utilities to file these reports immediately, and to provide access to the reports via the Commission’s site on the World Wide Web.

Dakota Electric claims to have already fulfilled the reporting requirements of § 216B.1611, and expresses its intention to continue doing so. At hearing the Department corroborated Dakota Electric’s claim, and stated its intention to post utilities’ annual DG interconnection reports on the Department’s site on the World Wide Web.

² See, for example, *In the Matter of the Petition of Minnesota Power for Approval of Rider for Distributed Generation Service and Rider for Standby Services*, Docket No. E-015/M-04-2030, ORDER APPROVING TARIFF RIDER AND RELATED DOCUMENTS (November 7, 2005) at 8.

Given that the DG Coalition did not ask for any additional remedies as regards Dakota Electric's filings, the Commission will continue its practice of accepting the Department's offer to post the reports on its website and declining to take any additional action regarding this matter.³

B. Payments to the Utility

The ORDER ESTABLISHING STANDARDS provides for a utility to establish the rates it will charge a DG customer for the added services that the customer will require. The Order lists the following services:

- a. *Energy and capacity.*
- b. *Scheduled maintenance service (energy, or energy and capacity, supplied by the utility during scheduled maintenance of the customer's non-utility source of electric energy supply).*
- c. *Unscheduled outages (energy, or energy and capacity, supplied by the utility during unscheduled outages of the customer's non-utility source of electric energy supply).*
- d. *Supplemental service (electric energy, or energy and capacity, supplied by the utility to the DG customer when the customer's non-utility source of electricity is insufficient to meet the customer's own load).*
- e. *Other services deemed necessary.*⁴

In its DG Rider, Dakota Electric proposes to charge DG customers for interconnection services, supply services (including "supplemental services"), transmission services and distribution services. In its Standby Service Rider, Dakota Electric proposes to charge DG customers for electric service during scheduled maintenance or unscheduled outages.

1. Supplemental Service

Dakota Electric's proposed DG rider states that "Supply services include standby services such as scheduled maintenance, unscheduled outages and supplemental service as provided under Cooperative's Rider for Standby and Supplemental Service."

The Department expresses concern about the references to "supplemental service." The Department argues that for most DG customers, basic firm retail electric service fulfills the definition of supplemental service – that is, it represents electricity provided to a customer to meet the customer's otherwise unmet need for electricity. Because Dakota Electric proposes to offer its DG Rider only to customers that already subscribe to some other form of basic electric service, the Department finds little basis for charging DG customers twice for this service. Consequently the Department recommended excluding the proposed references to supplemental service. For added

³ *In the Matter of the Petition of Minnesota Power for Approval of Rider for Distributed Generation Service and Rider for Standby Services*, Docket No. E-015/M-04-2030, ORDER APPROVING TARIFF RIDER AND RELATED DOCUMENTS (November 7, 2005) at 8.

⁴ *Id.*, Attachment 6, Item 3.

clarity, the Department recommended that the DG rider state, “Supplemental service is available under the Cooperative’s firm retail electric rate schedule to which this Rider is attached,” and adding a definition of supplemental service tracking the language from the ORDER ESTABLISHING STANDARDS, above.

Dakota Electric acknowledges that often a DG customers’ retail electric service will provide adequate supplemental service, which Dakota Electric labels “residual retail service.” But Dakota Electric argues that where a generator’s output varies with the customer’s thermal load characteristics, Dakota Electric must be prepared to follow the customer’s needs. Given the variability of such customers, Dakota Electric proposes that it be permitted to contract with these customers individually for a supplemental “load following service.” Specifically, Dakota Electric proposes expanding the Department’s proposed definition of supplemental service as follows:

Supplemental Service is electric energy, or energy and capacity, supplied by the Cooperative to the Customer when the Customer’s non-utility source of electricity (distributed generation system) is insufficient to meet the Customer’s own load. Supplemental Service can take two forms: residual retail service and load-following service. **Residual Retail Service** is intended for a Dakota Electric customer who has an alternate source of electric energy supply which normally supplies only a portion of the customer’s electrical load requirements and who requires firm service for the remaining portion of the customer’s electrical requirements. Such Residual Retail Service is available under the Cooperative’s firm retail electric rate schedule to which this rider is attached. **Load Following Service** is intended for a Dakota Electric retail customer who has an alternate source of electric energy supply which has an output that is variable and dependent on the thermal load characteristics of the retail customer, and therefore, serves all or a portion of the customer’s electrical load requirements for a portion of the time and requires use of utility service for supply of energy at all other times. This load following service will be evaluated and contracted for on an individual basis with a customer based on the specific variable load requirements of the customer. Since a customer may have control over the thermal load characteristics that affect the output of distributed generation facilities in this situation, we believe the best way of providing service is on an individual contracted basis. This will recognize that some customers may rely on utility service during high cost on-peak periods while other customers may require such utility service only during lower cost off-peak periods.

The Commission agrees with the Department that DG customers should not be double-charged for basic utility service. Consequently the Commission will adopt the Department’s recommendation to exclude Dakota Electric’s initial language regarding supplemental service.

But where a utility can identify that a DG customer requires – or can benefit from – some additional service from the utility, the Commission finds it reasonable for the utility to offer the service at an appropriate rate. For this reason, Dakota Electric’s expanded definition of “supplemental service” will also be approved.

2. Meter Costs and Service Charges

Within both the DG Rider and the Standby Rider, Dakota Electric proposes recovering meter-related costs from DG customers through a one-time charge as well as monthly charges. In addition, through its DG Rider Dakota Electric proposes imposing a monthly “service charge,” equal to the service charge for a DG customer’s underlying basic service. Dakota Electric argues that these charge are designed to ensure that each DG customer bears its own costs and is not subsidized by other ratepayers.

The Department acknowledges that utilities may seek to recover the added cost of distributed generation from DG customers but questions the basis for Dakota Electric's proposals, noting that Dakota Electric's customers already pay a service charge for basic service. Dakota Electric defends its proposed additional monthly charge by arguing that costs related to customer accounts greatly exceed the costs that Dakota Electric recovers from its General Service Rate service charge.

Where Dakota Electric can demonstrate that it incurs additional costs to serve its DG customers, it is appropriate for Dakota Electric's DG rider to provide for recovering those costs. The additional costs are obvious where, for example, DG service requires the utility to install a new meter; consequently the Commission will authorize Dakota Electric to impose a one-time charge for this service. The record is less clear, however, about whether the costs Dakota Electric seeks to recover through its proposed monthly charges are incremental costs of distributed generation. The Commission will authorize Dakota Electric to charge a monthly service fee to recover incremental metering operation and maintenance costs once Dakota Electric demonstrates and quantifies such costs.

3. Fees for Non-Firm Generation and Transmission Service

Non-firm service refers to back-up service that a utility provides to the extent that its capacity is not being used to meet the needs of firm-service customers at the moment. Customers that are willing to endure power outages or that have their own back-up sources of energy may prefer to subscribe for non-firm standby service because it is less expensive than firm service. The Commission's ORDER ESTABLISHING STANDARDS addresses the price of non-firm service as follows:

- i. Generation (energy and capacity): There are no monthly reservation fees for energy and capacity for a non-firm DG customer.*
- ii. Transmission: There are no monthly reservation fees for transmission for a non-firm DG customer.⁵*

Consistent with the Order, Dakota Electric's Standby Service Rider would not impose a reservation fee on non-firm customers to recover generation or transmission costs. But Dakota Electric's language provides for imposing such a charge in the future.

Dakota Electric buys its electricity from Great River Energy (GRE). Dakota Electric notes that GRE operates in multiple states, and reasons that some other regulatory authority could direct GRE to begin charging generation and transmission reservation fees. If GRE were to begin charging Dakota Electric to recover generation and transmission costs on the basis of non-firm service, Dakota Electric argues that it should be permitted to recover such costs from its non-firm DG customers.

The Department disputes Dakota Electric's contention. The Commission has ruled that utilities should recover their fixed generation and transmission costs from firm customers; that conclusion cannot be altered by the actions of Dakota Electric's wholesale service provider.

⁵ ORDER ESTABLISHING STANDARDS, Attachment 6.

Until GRE begins charging a generation or transmission reservation fee for non-firm service, this issue is academic. For the time being, the Commission will direct Dakota Electric to conform its Standby Service Rider to the Commission's ORDER ESTABLISHING STANDARDS and remove the language providing for charging generation and transmission reservation fees for non-firm service. If GRE begins imposing the relevant charges, Dakota Electric is free to bring this matter back before the Commission for a review based on the specific circumstances.

4. Standby Service for DG Systems Rated at 60 kW or Less

If a customer asks a utility to prepare to furnish electricity on a moment's notice in the event the customer's large generator fails, the utility may need to incur additional costs; the utility would be justified in seeking to recover such costs through its rates for standby service. But the smaller the generator's output, the smaller the burden to replace that power. If a generator is small enough, the burden of providing standby service becomes subsumed within the burden of coping with the system's normal fluctuations in supply and demand. And where a DG customer does not impose any additional costs on a utility, no additional charge is warranted. This policy is reflected in the Commission's ORDER ESTABLISHING STANDARDS as follows:

A DG facility of 60 kW or less is exempted from paying any standby charges. The Commission will review this guideline within 24 months.⁶

In its Standby Service Rider, Dakota Electric proposes the following language to implement this policy:

Any Customer taking service under Cooperative's Rider for Distributed Generation Service shall not be required to take service under this Rider for standby services required to temporarily back up distributed generation systems rated at 60 kW or less. However, Cooperative reserves the right to limit the number of Distributed Generation Customers receiving such an exception based on financial considerations.

The Department offers two objections to this language. First, the ORDER ESTABLISHING STANDARDS does not excuse small DG customers from *taking* standby service; they excuse the customer from *paying an additional charge* for the service. Second, the Order does not provide any exceptions for "financial considerations."

In remedy, the Department recommends that Dakota Electric modify its language to clarify that customers with distributed generation systems rated at 60 kW or less will receive standby service through their base rates. The Department further recommends that Dakota Electric eliminate the language limiting the number of customers that may be exempt from paying standby charges. Finally, the Department recommends that Dakota Electric report in 24 months on the number of customers taking standby service for DG systems generating 60 kW or less, and the aggregate usage taken by these customers.

While conceding many of the Department's concerns, Dakota Electric maintains that it should retain the discretion to limit the number of DG customers that can take advantage of the 60 kW exemption if the financial consequences grow too large.

⁶ ORDER ESTABLISHING STANDARDS, Attachment 6.

Until the number of small DG customers on Dakota Electric's system grows large enough to cause a problem, the Commission regards Dakota Electric's concerns as academic. Consistent with the Commission's ORDER ESTABLISHING STANDARDS, the Commission will adopt the Department's recommendations. Dakota Electric shall make the conforming changes to its Standby Service Rider, and shall file the necessary report. Dakota Electric is free to petition the Commission for additional relief if the number of small DG customers becomes problematic.

C. Payments to DG Customers

In addition to establishing guidelines governing a DG customer's payments to its utility, the ORDER ESTABLISHING STANDARDS established guidelines governing payments by the utility to the customer. The Commission concluded that the rates a utility pays to the customer "should reflect the value of the distributed generation to the utility, including any reasonable credits for emissions or for costs avoided on the generation, transmission and/or distribution system."⁷ To the extent that a customer helps the utility avoid costs for energy (such as fuel), capacity (such as generation, transmission or distribution plant), or the costs of complying with legal mandates to use renewable sources of energy, or helps a utility earn a premium by selling electricity generated using renewable sources, the customer should receive the benefit. Where a utility has contracted to obtain all of its electricity from a specific supplier, the supplier may assume the utility's obligation to pay the DG customer for avoided costs. In this manner, customers will receive the appropriate incentives for developing distributed generation.

1. GRE's Special Rate Rider V (Distributed Generation)

Because Dakota Electric buys its electricity from GRE, for many purposes GRE is the source of the relevant calculations of Dakota Electric's avoided cost and incremental benefit related to distributed generation. In its DG Rider, Dakota Electric proposes that GRE pay DG customers to the extent that they help GRE avoid costs of energy, capacity, increased reliability due to distribution, and complying with statutory mandates regarding renewable energy and emissions.

The Department generally recommends approving language in the DG Rider providing for GRE to pay DG customers for its avoided cost of energy and capacity, and language in the Standby Service Rider establishing the price of reserving generation and transmission capacity based on GRE's costs. But the Department notes that GRE had not finalized the price schedule in question and that Dakota Electric's riders do not state how DG customers would gain access to that schedule.

As a result, the Department makes three additional recommendations for Dakota Electric. First, Dakota Electric should file an explanation of any changes that GRE makes to its proposed price schedule, including their implications for Dakota Electric's DG and Standby Service Riders. Second, Dakota Electric should include GRE's Special Rate Rider V, once finalized, as part of its DG and Standby Service Riders and make appropriate language changes in the rider to refer to this document. Third, Dakota Electric should provide explicit means for current and potential DG customers to gain access to GRE's DG price schedule.

At hearing Dakota Electric agreed with the Department's recommendations. To avoid needless disclosure of GRE's trade-secret information, Dakota Electric proposed publishing the non-trade-secret portions of the schedule on both the Dakota Electric and GRE websites and disclosing the

⁷ *Id.*, Attachment 6, Item 4.

trade-secret information to current and potential customers that sign confidentiality agreements. The Commission finds that Dakota Electric's reliance on GRE's cost and price information is consistent with the purposes of the ORDER ESTABLISHING STANDARDS and the statutory policies promoting distributed generation. Further, the Commission finds the Department's recommendations are appropriately designed to help DG customers, and potential customers, understand the DG and Standby Service Riders. They will be adopted.

2. Renewable Sources of Energy and Capacity

a. Avoided Costs

As the ORDER ADOPTING STANDARDS notes, where a utility has an obligation to acquire electricity from renewable or otherwise environmentally sound sources ("green power")⁸ and the utility relies on a DG customer's generator to fulfill that obligation, the DG customer should be compensated at the utility's avoided cost of meeting its green power needs. The Commission found as follows:

A DG customer who installs a renewable DG facility should be paid the avoided cost of "green power" to the extent that installation of the DG facility allows the utility to avoid the need to purchase "green power" elsewhere....⁹

The proposed DG rider states that the amount Dakota Electric would pay for "green" energy and capacity would *reflect* the utility's avoided costs. The Department recommends that Dakota Electric clarify that its payment would *equal* its avoided costs.

The DG Coalition argues that Dakota Electric should provide a schedule of its avoided "green power" costs. Dakota agrees to provide this schedule on the same basis that it provides its other avoided costs.

The Commission finds the Department's recommendation, and Dakota's concession, provide useful clarity to the rider language. They will be approved.

b. Tradable Credits for Renewable Energy and Capacity

A utility with high green power costs may seek to hire other parties to fulfill its green power obligations. That is, the high-cost utility may seek to buy the right to claim credit for the use of another party's green power generator. The Legislature provides for the creation of a system of

⁸ For example, many utilities need to acquire green power to serve the needs of customers that order green power from the utilities' tariffs. Also, Minnesota Statutes § 216B.1691 directs Minnesota's investor-owned electric utilities, generation and transmission cooperatives, and municipal power agencies to make good faith efforts to obtain enough electricity from qualifying renewable energy technologies to represent 10% of total retail electric sales by the year 2015.

⁹ ORDER ESTABLISHING STANDARDS, Attachment 6, Item 8.e.

tradable green power credits,¹⁰ and the Commission is considering this matter in a separate docket.¹¹

The party that buys a DG customer's power need not purchase the customer's green power credits. To distinguish regular power purchases from purchases involving green power credits, Dakota Electric and the Department eventually agreed to recommend adding the following language to Dakota Electric's DG tariff under the heading "Renewable Credits."

In the event that the Customer producing the power receives renewable energy credits – that is, the Customer is paid by the purchasing company the avoided cost of renewable energy purchases – then this transaction will constitute a transfer from the Customer to the purchasing company of the property rights for those renewable attributes specific to the renewable energy generated by the Customer and for which the purchasing company paid renewable energy credits.

The DG Coalition recommends further clarifying that a DG customer controls both its power and its credits, and a utility does not automatically receive a DG customer's credits when it buys a DG customer's power.

Dakota Electric agrees with the DG Coalition's proposal but with additional clarifications. As a preliminary matter, Dakota Electric notes that it has a contractual obligation to purchase all its electricity from Great River Energy (GRE). Consequently GRE assumes Dakota Electric's obligations for purposes of making purchases from DG customers, and any proposed tariff language must provide for this dynamic. For example, Dakota Electric and the Department use "purchasing company" as a phrase that can refer to either Dakota Electric or GRE as appropriate.

More substantively, Dakota Electric agrees that when GRE buys electricity from a DG customer, generally the customer would retain the option not to sell the green power credit as well. But GRE would be entitled to receive a DG customer's green power credit if GRE purchased the customer's power at a price that equaled or exceeds GRE's cost for green power.

The Commission finds that Dakota Electric's concessions represent a reasonable basis for compensating DG customers for the benefits they will provide DG's system. They will be approved.

3. Tradable Emissions Credits

The federal Clean Air Act rations the amount of sulfur dioxide (SO₂) firms may emit, but permits firms to buy and sell pollution allowances with each other.¹² Consequently such allowances have a market value.

¹⁰ Minn. Stat. § 216B.1691, subd. 4(a).

¹¹ See *In the Matter of In the Matter of a Commission Investigation into a Multi-state Tracking and Trading System for Renewable Energy Credits*, Docket No. E-999/CI-04-1616.

¹² 42 U.S.C. § 7651 *et seq.*

DG customers typically generate little SO₂. If a utility can reduce its reliance on some high-emissions source of electricity by buying electricity from some low-emissions DG customers, the utility may be able to avoid the cost of buying additional emissions credits (or may be able to sell emissions credits it already owns). Consistent with the principle that a DG customer should be compensated to the extent that it benefits a utility, the Commission's ORDER ESTABLISHING STANDARDS states:

For tradable emissions such as SO₂, if a low emission DG facility allows the utility to capture the value of the emission credit, then the DG owner should receive the credit revenues.

*A DG customer may get green credit or an emission credit, but not both.*¹³

Dakota Electric's proposed rider states that, where a DG customer's electricity permits Dakota Electric (or GRE) to derive some benefit related to tradable emissions allowances, the customer would receive tradable emissions credits that "reflect[] the economic value" of its emission credit. The Department recommends refining this language to say that the utility would provide the customer with credits that "equal the credit revenues associated with the DG facility."

In addition, the Department recommends that Dakota Electric's rider state, both in its discussion of tradable emissions credits and renewable credits, that DG customers may receive either renewable credits or tradable emission credits, but not both. This recommendation reflects the Commission's ORDER ESTABLISHING STANDARDS, quoted above.

The Commission finds that the Department's recommendations conform to the policies of the ORDER ESTABLISHING STANDARDS and add appropriate clarity. They will be adopted.

4. Revising Avoided Cost Calculations

While Dakota Electric proposes to pay DG customers for the costs they permit Dakota Electric to avoid, the magnitude of these costs will change over time. To ensure that the DG customer realizes and can benefit from up-to-date information, the Department recommends that Dakota Electric annually file the following:

- An updated energy payment schedule if different from the previous year's.
- An updated capacity payment schedule if different from the previous year's.
- An updated renewable resource credit schedule if different from the previous year's.
- The average tradable emissions credit for the previous year.
- A discussion and support of any and all changes in the schedules.

The Department's proposal provides a reasonable way to inform current and future DG developers about the financial consequences of their developments. The Commission will direct Dakota Electric to file this information at the same time that it makes its statutorily-prescribed DG interconnection report.

¹³ ORDER ESTABLISHING STANDARDS, Attachment 6.

5. Disclosure of Avoided Costs

While the DG Coalition supports having Dakota Electric make annual compliance filings, it expresses frustration with the utility's intention to keep much of the contents confidential. The Coalition argues that potential DG customers cannot evaluate a proposed project without knowing how much they can receive for providing additional energy and capacity. In any event, the Coalition asserts, Dakota Electric or GRE will need to disclose this information to participate in the energy markets established by the Midwest Independent Transmission System Operator, Inc. (MISO).¹⁴

Dakota Electric defends its desire to keep certain information confidential, arguing that widespread dissemination would hurt the utility's interests. For example, parties that bid to provide energy and capacity to Dakota Electric or GRE could exploit knowledge of the utility's avoided costs when making future bids. And Dakota Electric argues that the types of data that must be disclosed to participate in the MISO Day 2 Market differs from the types of data sought by the DG Coalition. Moreover, Dakota Electric argues that it is willing to disclose the information to DG customers, as well as parties considering becoming DG customers, provided they sign a confidentiality agreement.

The Commission finds that Dakota Electric's proposal appropriately balances the utility's interests with the needs of potential DG customers, and accords with the Commission's previous decisions.¹⁵ It will be approved.

D. FERC Order No. 2006

On May 12, 2005, the Federal Energy Regulatory Commission (FERC) issued Order No. 2006, its final rules standardizing agreements and procedures permitting a generator producing up to 20 MW of electricity to interconnect with a utility's electrical grid.¹⁶ The Department suggests that the Commission seek comments from any interested party regarding how FERC's decision affects current proceedings before the Minnesota Commission. No party objected to this proposal.

Given the close relationship between the subject of Order No. 2006 and various Minnesota dockets, the Commission finds the Department's recommendation reasonable. The Commission will therefore open a new docket for the purpose of receiving comments on how this new federal order affects ongoing Commission proceedings.

The Commission will so order.

¹⁴ See, for example, *In the Matter of Xcel Energy's Petition for Affirmation that MISO Day 2 Costs are Recoverable Under the Fuel Clause Rules and Associated Variances*, Docket No. E-002/M-04-1970 (discussing MISO's energy markets).

¹⁵ See *In the Matter of the Petition of Minnesota Power for Approval of Rider for Distributed Generation Service and Rider for Standby Services*, Docket No. E-015/M-04-2030, ORDER APPROVING TARIFF RIDER AND RELATED DOCUMENTS (November 7, 2005) at 4.

¹⁶ *In re Standardization of Small Generator Interconnection Agreements and Procedures*, Docket No. RM02-12-000 Final Rule (May 12, 2005).

ORDER

1. Dakota Electric Association's distributed generation proposal of December 28, 2004, is approved as revised and clarified herein.
2. Regarding proposed Schedule 60 "Rider for Standby Service," Sheet 28.0, APPLICATION (Exception B), Dakota Electric shall do the following:
 - A. Add the following language:

For any Customer with distributed generation systems rated at 60 kW or less, standby service will be available to customers through their base rates.
 - B. Eliminate the language limiting the number of customers that may be exempt from paying standby charges.
 - C. Report in 24 months on the number of customers taking standby service for DG systems generating 60 kilowatts or less, and the aggregate usage taken by these customers.
3. Regarding proposed Schedule 60 "Rider for Standby Service," Sheet 28.1, CHARGES FOR SERVICE, Reservation Fees, Dakota Electric shall do the following:
 - A. File an explanation of any changes that GRE makes to its proposed price schedule, including their implications for Dakota Electric's DG and Standby Service Riders.
 - B. Modify its language to refer to GRE's pending 2005 Special Rate Rider V Distributed Generation for pricing of generation and transmission reservation fees, and incorporate Rider V into the Rider.
 - C. Make GRE's Distributed Generation Price Schedule available to DG customers and potential customers.
 - D. Delete language stating that generation and transmission reservation fees will be billed to non-firm DG customers under the rates from its wholesale supplier.
4. Regarding proposed Schedule 60 "Rider for Standby Service," Sheet 28.2, BILLING DEMAND, Dakota Electric shall modify its language as follows:

The Customer shall contract for a specific kilowatt demand of standby service with the maximum being the amount sufficient to meet the Customer's requirements.... However, if standby power is not purchased, it will not be available. Moreover, the Customer must guarantee that the facility will never take more than the contracted amount of standby service.
5. Regarding proposed Schedule 60 "Rider for Standby Service," Sheet 28.3, STRANDED INVESTMENT, Dakota Electric shall provide support for the size of its proposed one-time charge to recover stranded distribution investments to physical assurance customers before it begins collecting the charge.

6. Regarding proposed Schedule 60 “Rider for Standby Service,” Sheet 28.3, TERMS AND CONDITIONS OF SERVICE (item 3), Dakota Electric is authorized to charge an initial fee to recover the cost of metering equipment and installation, and a monthly service charge to recover the additional cost of meter operation and maintenance, after Dakota Electric demonstrates and quantifies such costs.
7. Regarding proposed Schedule 61 “Rider for Distributed Generation,” Sheet 30.0, DEFINITIONS, Supplemental Service, Dakota Electric shall add new definition language as follows:

Supplemental Service is electric energy, or energy and capacity, supplied by the Cooperative to the Customer when the Customer’s non-utility source of electricity (distributed generation system) is insufficient to meet the Customer’s own load. Supplemental Service can take two forms: residual retail service and load-following service. **Residual Retail Service** is intended for a Dakota Electric customer who has an alternate source of electric energy supply which normally supplies only a portion of the customer’s electrical load requirements and who requires firm service for the remaining portion of the customer’s electrical requirements. Such Residual Retail Service is available under the Cooperative’s firm retail electric rate schedule to which this rider is attached. **Load Following Service** is intended for a Dakota Electric retail customer who has an alternate source of electric energy supply which has an output that is variable and dependent on the thermal load characteristics of the retail customer, and therefore, serves all or a portion of the customer’s electrical load requirements for a portion of the time and requires use of utility service for supply of energy at all other times. This load following service will be evaluated and contracted for on an individual basis with a customer based on the specific variable load requirements of the customer. Since a customer may have control over the thermal load characteristics that affect the output of distributed generation facilities in this situation, we believe the best way of providing service is on an individual contracted basis. This will recognize that some customers may rely on utility service during high cost on-peak periods while other customers may require such utility service only during lower cost off-peak periods.

8. Regarding proposed Schedule 61 “Rider for Distributed Generation,” Sheet 30.1, SERVICES, Services from Cooperative to Customer, Dakota Electric is authorized to charge a monthly service fee to recover incremental metering operation and maintenance costs after Dakota Electric demonstrates and quantifies such costs.
9. Regarding proposed Schedule 61 “Rider for Distributed Generation,” Sheet 30.1, SERVICES, Services from Cooperative to Customer, Supply Services, Dakota Electric shall modify its language as follows:

Supply services include standby services such as scheduled maintenance, and unscheduled outages and ~~supplemental service~~ as provided under Cooperative’s Rider for Standby and ~~Supplemental Service~~. Supplemental service is available under the Cooperative’s firm retail electric rate schedule to which this Rider is attached.

10. Regarding proposed Schedule 61 “Rider for Distributed Generation,” Sheet 30.2, SERVICES, Services from Customer to Cooperative, Capacity/Energy, Dakota Electric shall do the following:

A. Modify its language as follows:

If the Customer offers to sell energy to the Cooperative, then such energy and capacity ~~shall~~ ~~will~~ be purchased by the Cooperative’s wholesale power supplier under the rates, terms and conditions for such purchases as established by the wholesale supplier....

B. Incorporate GRE’s 2005 Special Rate Rider V “Distributed Generation” for purchases of capacity and energy, when it is approved, and make appropriate language modifications referencing Rider V.

11. Regarding proposed Schedule 61 “Rider for Distributed Generation,” Sheet 30.2-.3, SERVICES, Services from Customer to Cooperative, Dakota Electric shall add the following language:

Line Loss Credits.

If Customer requests the Cooperative to provide a specific line loss study, at the Customer’s expense regardless of the study’s outcome, Customer may be eligible for additional line loss credits if the study supports such credits.

12. Regarding proposed Schedule 61 “Rider for Distributed Generation,” Sheet 30.2, SERVICES, Services from Customer to Cooperative, Distribution Credits, Dakota Electric shall modify the language as follows:

~~If the study cannot be incorporated as part of the Cooperative’s annual distribution planning study, then such study will be pursued with Customer’s approval at Customer’s expense.~~

13. Regarding proposed Schedule 61 “Rider for Distributed Generation,” Sheet 30.3, TERMS AND CONDITIONS OF SERVICE (item 2), Dakota Electric may charge an initial fee to recover the cost of metering equipment and installation, and a monthly service charge to recover the additional cost of meter operation and maintenance, after Dakota Electric demonstrates and quantifies such costs.

14. Regarding proposed Schedule 61 “Rider for Distributed Generation,” Sheet 30.3, SERVICES, Services from Customer to Cooperative, Renewable Credits, Dakota Electric shall do the following:

A. Grant DG customers the choice of receiving renewable or regular avoided cost. However, if the regular avoided cost is higher and the customer elects payment of this higher avoided cost, then the utility shall receive the green credit or tradable renewable credits. The avoided cost of renewable energy shall be based on the most recent utility cost of purchasing renewable energy from other sources.

B. Modify its language as follows:

If Customer installs a renewable distributed generation system ... the purchase of such renewable energy and capacity will ~~reflect equal~~ the avoided cost.... In the event that Customer producing the power receives renewable energy credits – that is, the Customer is paid by the purchasing company the avoided cost of renewable energy purchases – then this transaction will constitute a transfer from the Customer to the purchasing company of the property rights for those renewable attributes specific to the renewable energy generated by the Customer and for which the purchasing company paid renewable energy credits. Customer may receive renewable credits or tradable emission credits but not both.

15. Regarding proposed Schedule 61 “Rider for Distributed Generation,” Sheet 30.3 SERVICES, Services from Customer to Cooperative, Tradable Emission Credits, Dakota Electric shall modify its language as follows:

If the purchase of energy and capacity by the Cooperative’s wholesale power supplier ... then tradable emissions credits will be provided to the Customer under terms established by the wholesale power supplier that ~~reflects the economic value equal the credit revenues associated with the DG facility of such emission credits....~~ Customer may receive either renewable credits or tradable emission credits but not both.

16. Dakota Electric shall file DG interconnection reports as required by Minnesota Statutes § 216B.1611, subdivision 4, no later than January 31 of each year. The Department shall make the annual DG interconnection reports available via the World Wide Web.

17. Dakota Electric shall also provide annually –

- An updated energy payment schedule if different from the previous year;
- An updated capacity payment schedule if different from the previous year;
- An updated renewable resource credit schedule if different from the previous year;
- The average tradable emissions credit for the previous year; and
- A discussion of and support for any and all changes in the schedules.

18. Regarding concerns over excessive metering requirements, Dakota Electric shall follow the requirements of the Technical Workgroup as they relate to metering for DG installations.

19. Dakota Electric shall file revised tariff riders complying with the Commission’s modifications within 30 days. Within 10 days of Dakota Electric’s compliance filing, interested parties may file comments on the filing.

20. Dakota Electric shall substitute its name for the words “Area EPS” throughout the process and technical documents identified in the ORDER ESTABLISHING STANDARDS, and then post them to its site on the World Wide Web.

21. The issue of how the Federal Energy Regulatory Commission’s Order No. 2006 affects current proceedings before the Minnesota Commission will be addressed in a separate docket.

22. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)

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