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October 10, 2014

Mr. William Grant  
Deputy Commissioner  
Minnesota Department of Commerce  
Division of Energy Resources  
85 7<sup>th</sup> Place East, Suite 500  
St. Paul, MN 55101-2198

**RE: CenterPoint Energy Comments on the Minnesota Combined Heat and Power Stakeholder Engagement Meetings**

Dear Deputy Commissioner Grant:

CenterPoint Energy (the Company) has participated in the first two Minnesota Combined Heat and Power Stakeholder Engagement Meetings (the Stakeholder Meetings) conducted on September 11 and 24, 2014 and looks forward to participating in the Stakeholder Meetings scheduled for October 15 and November 5, 2014. The Company appreciates the opportunity to comment on the issues and ideas raised in the Stakeholder Meetings and in the supporting meeting materials at this midway point in the process. Given the volume of meeting materials, the complexity of the issues raised, and the short timeframe of the comment period, these Comments will not seek to comprehensively address all topics raised in the meetings. Rather, the Company seeks to highlight specific concepts that appear to have merit or which appear significantly problematic.

The Company believes that finding new ways to encourage the adoption of combined heat and power (CHP) systems, and thus increase the efficiency of the overall energy system, is in the interest of all Minnesotans. CHP could play an important role in achieving the state's established energy savings, fossil fuel reduction, and greenhouse gas reduction goals. Finding appropriate mechanisms to promote CHP can help accelerate adoption of this currently under-utilized resource.

With regard to specific mechanisms to promote CHP, CenterPoint Energy is open to using approaches that leverage the existing Conservation Improvement Program (CIP) framework or to methods outside of CIP. Indeed, these may not be mutually exclusive, and maximizing CHP could mean pursuing both approaches simultaneously. Below, the Company lays out considerations which it believes are worth bearing in mind for each of these two pathways.

#### *CHP Within CIP*

CIP has proven to be a successful and robust means to promote energy efficiency in Minnesota, and indeed the ratepayer-funded efficiency program model has been successful throughout the country. CenterPoint Energy believes that the CIP model can easily accommodate the inclusion of CHP and there is an advantage to leveraging an existing program structure. As has been noted in the Stakeholder Meetings, several other states have used utility efficiency programs to promote CHP.

It is true that, as a technology aimed at achieving system-level efficiency, CHP is somewhat different from the traditional approach to CIP, which has been focused primarily on point-of-use efficiency measures. The traditional fuel-specific and behind-the-meter approach to calculating energy savings can make it difficult to value the efficiency achieved through the implementation of CHP, since typically the on-site consumption of energy will increase, even though less overall energy is required to provide the desired energy services.<sup>1</sup>

However, by taking a system view and evaluating the overall efficiency of energy use at the facility, it is possible to quantify the total energy saved. These savings can then be assigned to the gas and electric utility through any of a variety of methods – examples from several states have been presented in the Stakeholder Meetings, and other approaches are not difficult to imagine. CenterPoint Energy is open to discussion regarding the particular formula used to allocate the overall energy savings between the gas and electric utility. The Company does believe, however, that it is critical for the success of including CHP in CIP for each energy provider to receive value (in the form of claimable CIP energy savings, which should be included in the calculation of the CIP financial incentive) from working jointly to facilitate and encourage CHP projects. Furthermore, care must be taken to ensure that legitimate utility costs, including any decrease in sales resulting from the project, can be recovered in a timely fashion.<sup>2</sup> These elements are key to aligning all parties' interests behind the expansion of CHP.

While the Company believes that CIP could be used effectively to promote CHP, it does not support annual CHP goals within CIP (or through other mechanisms, such as the proposed Alternative Portfolio Standard for electric utilities). CHP projects are unusual and do not occur on a regular basis, particularly given the relatively small CHP market in Minnesota at the moment. Rather than establishing annual goals, CenterPoint Energy believes it makes more sense to simply allow CHP savings to count for utilities' CIP achievements. If at some point in the future, CHP consistently represents a significant percentage of savings, policies can be re-evaluated at that time.

CenterPoint Energy also does not support the operational incentives for CHP proposed in the FVB report. CIP has rarely – if ever – been used to provide ongoing operational incentives, and the proposal would represent an ongoing commitment long beyond the three-year cycle used for CIP planning. CIP has historically been designed and used to provide up-front incentives intended to reduce the first cost of efficiency measures, not to create ongoing cash flow support. This capital-focused approach is consistent with the Company's understanding of one of the primary economic barriers to CHP implementation, namely, the relatively high upfront costs. CenterPoint Energy suggests that if ongoing operational incentives are determined to be necessary in order to encourage CHP, then CIP is not the proper source of funding for such incentives.

It is also worth noting that the suggested level of operational incentive is problematic, regardless of funding source. At \$0.75 per million BTU, it exceeds the Company's delivery charge for the Large Volume Dual Fuel customer class – the customers most likely to install CHP systems – which is currently \$0.4929 per million BTU. While the Company is supportive of CHP, it does not believe that such a level

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<sup>1</sup> These comments, like much of the discussion in the Stakeholder Meetings, assume that the predominant form of CHP would use utility-delivered natural gas as the primary energy input.

<sup>2</sup> This principle is well-established as a key part of the regulatory framework to support utility efficiency programs. It is re-iterated here both to underscore that it should apply to CHP as much as to existing CIP programs, and to clarify that the Company does not believe that CHP projects should benefit one type of energy provider (gas) at the expense of another (electric).

of subsidy is appropriate – and it reiterates the point made above regarding the need to ensure that utilities are able to recover their costs of service.

*CHP Outside of CIP*

The proposal to allow utilities to invest directly in CHP projects, thereby leveraging their relatively lower cost of capital to improve project economics, is an interesting one that deserves further exploration. There are, without question, a number of important issues that must be further discussed and elaborated, but the Company believes that the idea has potential as a means to encourage development of CHP resources. Among the issues that should be fleshed out are how to ensure ratepayers are not exposed to inappropriate levels of risk, the nature of particular CHP projects for which utility investment is appropriate, and others. Nevertheless, the Company is interested in and supportive of the idea at a conceptual level, and believes that the opportunity to invest in CHP should be available to both gas and electric utilities.

CenterPoint Energy is not supportive of the idea of a CHP Alternative Portfolio Standard for electric utilities, nor of a “carve-out” for CHP in the Renewable Energy Standard. The combination of CIP and investment opportunities, if implemented well, could go a long way to remove the barriers to CHP and align stakeholder interests, and the Company believes that this approach should be used prior to and in favor of incremental mandates.

CenterPoint Energy appreciates the Department’s work to continue the dialog about CHP in Minnesota, as well as the opportunity to offer these Comments. The Company looks forward to further discussion on the points highlighted here as well as others raised in the Stakeholder Meetings.

Please feel free to contact me at 612-321-4613 with any questions regarding these Comments.

Sincerely,

/s/ Nick C. Mark

Nick C. Mark  
Manager, Conservation & Renewable Energy Policy