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

RE: Comments from Fresh Energy – CHP Stakeholder Process and Policies in Minnesota

Dear Ms. Burdette,

Please find below Fresh Energy's comments regarding combined heat and power (CHP) policy in Minnesota, particularly in the context of the current series of stakeholder meetings convened by the Department of Commerce, Division of Energy Resources. Fresh Energy is a nonpartisan, energy policy nonprofit based in St. Paul, Minnesota with over 20 years of experience advocating for a clean, fair and efficient energy system in Minnesota and the upper Midwest. We thank the Division of Energy Resources for convening this important conversation and for the opportunity to submit comments on this issue.

### **Why combined heat and power is important**

Fresh Energy commends the Division of Energy Resources (DER) for convening these critical stakeholder meetings. Efficient CHP generation resources have the potential to reduce greenhouse gas emissions across the utility system by locating efficient generation on-site at the customer's load and using less fuel than traditional centralized generation sources. However, as highlighted in the FVB Energy report, the two stakeholder meetings held in the last month, and stakeholder meetings during the fall of 2013, it is difficult to craft state policy to effectively promote CHP deployment. Numerous challenges exist in implementing policies that encourage CHP deployment while maintaining grid reliability and ensuring that Minnesota has a mix of cost effective energy resources. These meetings are necessary to educate and find common ground among stakeholders to inform future CHP policies for the state.

As highlighted in Fresh Energy's comments on the need and scope for a generic proceeding on standby rates, combined heat and power (CHP) can play an important role in meeting Minnesota's greenhouse gas emissions reductions goal of at least 80 percent of 2005 levels by 2050.<sup>1</sup> In addition, as an efficient generation resource, CHP can play a critical role in meeting the state's fossil fuel reduction goal of 15 percent reduction by 2015.<sup>2</sup> Therefore, Fresh Energy believes that state policy should encourage the deployment of CHP to the maximum economically feasible extent possible to meet public policy goals. Standby rates offer one area to remove barriers to customer-sited CHP projects, but a separate process is underway that may lead to a generic proceeding before the Public Utilities Commission focusing on standby rates and how they impact CHP and other distributed generation resources. In addition to this much-needed examination of standby rates, Fresh Energy believes this CHP policy stakeholder process

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<sup>1</sup> Fresh Energy Comments re: Need and Scope for a Generic Proceeding on Standby Rates. Submitted to the Division of Energy Resources on October 1, 2014.

<sup>2</sup> *Id.*

broadly benefits from identifying and analyzing other complementary state policies to promote and remove barriers to customer-sited CHP deployment, such as those highlighted in the FVB Energy report.

Because CHP can play an important role in meeting state energy goals, as described above, Fresh Energy believes that state policy should promote CHP deployment.

### **Feedback from utilities needed**

The FVB Energy report, contracted by the Division of Energy Resources, is a tremendous resource outlining potential policies Minnesota can pursue to promote CHP deployment in the state. Fresh Energy believes that many of these policies may be implemented and that the options are not “either-or” but rather “and-both.” For example, encouraging a harder look at CHP through utility Integrated Resource Planning can offer a vigorous long-term view and approach to how CHP can fit into utility generation portfolios. In addition, inclusion of CHP into utility Conservation Improvement Programs (CIP) may offer both utilities and customers with enough motivation to move forward with a CHP project. Both of these policies may be pursued at the same time. In addition, while individual policy proposals may not appear to offer large increases in CHP deployment, a suite of policy options considered together may offer greater potential. Along these lines, Fresh Energy would caution against omitting a specific policy based solely on the CHP deployment potential it offers and the unique barriers to implementation it may carry.

One important consideration when evaluating policy proposals is assessing the degree to which they create sufficient motivation for utilities to pursue CHP. For example, if state policy allows and/or encourages including CHP in utilities’ rate base, will utilities actually pursue this approach? Similarly, if policy is implemented such that savings from CHP can count towards utilities’ savings requirements under the Energy Efficiency Resource Standard and are factored in to utility CIP incentive payments, will this create an adequate policy and market landscape for utilities to promote CHP? The utility perspective is critical in this conversation, and Fresh Energy would welcome the opportunity to hear from utility representatives on the policy proposals before all the stakeholders. If the proposed policies do not create a feasible utility landscape for more CHP in Minnesota, it would also be helpful for stakeholders to identify what specific barriers exist preventing these policies from working.

### **Feedback from industrial customers needed**

Similar to utility feedback, Fresh Energy would also welcome the industrial customer perspective in this stakeholder process. Specifically, the FVB Energy report suggests that utility-owned CHP on the customer’s site would take advantage of utilities’ low weighted-average cost of capital (WACC) to avoid the financial hurdles some customers face when considering building CHP systems. Because the customer is such a critical part of this proposal, stakeholders would benefit from hearing those customers’ perspective on whether this policy would be acceptable and favorable for implementing CHP projects.

### **Include small and public projects**

While CHP can often be seen as a large industrial generation resource, there is also opportunity to see larger deployment of CHP in smaller contexts. Additionally, as illustrated by the recent program released in Illinois, the public sector can see the efficiency generation and overall energy savings benefits of CHP resources. The Energy Resources Center report, titled “Analysis of Standby Rates and Net Metering Policy Effects on Combined Heat and Power (CHP) Opportunities in Minnesota,” includes an appendix with detailed breakdowns of the technical potential for CHP in the state in a variety of settings.<sup>3</sup> The report finds significant technical potential exists throughout utility service territories in Minnesota with projects under 5MW in the commercial and industrial sectors. Fresh Energy encourages the Division of Energy

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<sup>3</sup> Energy Resources Center. “Analysis of Standby Rates and Net Metering Policy Effects on Combined Heat and Power (CHP) Opportunities in Minnesota.” April 2014. Appendix B.

Resources to ensure policy recommendations include measures that can encourage CHP implementation in non-large industrial settings.

### **Additional opportunity for comments**

The Division of Energy Resources has scheduled two future CHP stakeholder meetings. These meetings are slated to include presentations from stakeholders, deeper discussions around the proposed policies and other approaches, and reactions to next steps. Stakeholders may have additional and more detailed insights on that right way forward for Minnesota regarding CHP policies after those meetings. For this reason, Fresh Energy suggests an additional comment opportunity following the next two stakeholder meetings. The Department might also wish to consider allowing stakeholders to comment on the Department's draft CHP recommendations.

Policies that encourage CHP deployment throughout Minnesota in a variety of settings for a diverse set of utility customers can help Minnesota meet its state energy goals. The current stakeholder process convened by the Division of Energy Resources is an excellent step towards realizing greater use of efficient CHP generation resources. Fresh Energy appreciates the opportunity to participate and comment in this important discussion.

Sincerely,

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