

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Gregory Scott	Chair
Edward A. Garvey	Commissioner
Marshall Johnson	Commissioner
LeRoy Koppendrayner	Commissioner
Phyllis A. Reha	Commissioner

In the Matter of Establishing Generic Standards  
for Utility Tariffs for Interconnection and  
Operation of Distributed Generation Facilities  
under Minnesota Laws 2001, Chapter 212

ISSUE DATE: June 19, 2002

DOCKET NO. E-999/CI-01-1023

ORDER ORGANIZING WORK GROUPS  
AND SETTING PROCEDURAL SCHEDULE

**PROCEDURAL HISTORY**

On August 1, 2001, Minnesota Statutes § 216B.1611 became effective. Senate File 722, Minnesota Laws 2001, chapter 212, article 3. Subdivision 2 of that statute states:

(a) The commission shall initiate a proceeding within 30 days of the effective date of this section, to establish, by order, generic standards for utility tariffs for the interconnection and parallel operation of distributed generation fueled by natural gas or a renewable fuel, or another similarly clean fuel or combination of fuels of no more than ten megawatts of interconnected capacity. At a minimum, these tariff standards must:

- (1) to the extent possible, be consistent with industry and other federal and state operational and safety standards;
- (2) provide for the low-cost, safe, and standardized interconnection of facilities;
- (3) take into account differing system requirements and hardware, as well as the overall demand load requirements of individual utilities;
- (4) allow for reasonable terms and conditions, consistent with the cost and operating characteristics of the various technologies, so that a utility can reasonably be assured of the reliable, safe, and efficient operation of the interconnected equipment; and
- (5) establish: (i) a standard interconnection agreement that sets forth the contractual conditions under which a company and a customer agree that one or more facilities may be interconnected with the company's utility system; and (ii) a standard application for interconnection and parallel operation with the utility system.

(b) The commission may develop financial incentives based on a public utility's performance in encouraging residential and small business customers to participate in on-site generation.

On August 20, 2001, the Commission issued its ORDER INITIATING DOCKET, inviting people to file proposed standards with the Commission, and inviting people to comment on those standards.

On December 3, 2001, the Commission received initial comments from the Minnesota Chamber of Commerce (the Chamber), the Minnesota Department of Commerce (the Department), Missouri River Energy Services (MRES), the Minnesota Municipal Utilities Association, Reliant Energy Minnegasco (Minnegasco), and the “Regulated Utilities” consisting of Dakota Electric Association, Interstate Power Company, Minnesota Power, Otter Tail Power Company, and Northern States Power Company d/b/a Xcel Energy.

On January 18, 2002, the Commission received reply comments from Hennepin County, the Chamber, MRES, Minnegasco, and the Regulated Utilities.

The matter came before the Commission on April 25, 2002. At the hearing the Department agreed to lead work groups to further develop the record of this docket, and to file reports on the work group recommendations.

## **FINDINGS AND CONCLUSIONS**

### **I. Background<sup>1</sup>**

As noted above, the Legislature has directed the Commission to establish “generic standards for utility tariffs for the interconnection and parallel operation of distributed generation....”

Most electricity is generated at large power plants, then transmitted long distances to where it is needed. “Distributed generation,” in contrast, refers to the practice of generating electricity with multiple, disbursed power plants. Many benefits have been attributed to distributed generation, including reducing the demand on long-distance transmission lines, enhancing reliability, 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 adopted § 216B.1611 to –

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<sup>1</sup>See ORDER INITIATING DOCKET (August 20, 2001).

(1) establish the terms and conditions that govern the interconnection and parallel operation of on-site distributed generation; (2) to provide cost savings and reliability benefits to customers; (3) to establish technical requirements that will promote the safe and reliable parallel operation of on-site distributed generation resources; (4) to enhance both the reliability of electric service and economic efficiency in the production and consumption of electricity; and (5) to promote the use of distributed resources in order to provide electric system benefits during periods of capacity constraints.<sup>2</sup>

## **II. Analysis**

Having reviewed the submissions, the Commission observes that comments centered around topics of technical standards and rates.

### **A. Technical standards**

Many of the comments address the technical requirements for connecting non-utility generators to the electric grid. Electric utilities emphasize that connecting to new generators must not create new hazards for the people operating the new generators, for the utility's personnel, or for the electric system and the public that rely on it.

On the other hand, other commentators express concern that excessive technical requirements could create an unwarranted barrier to distributed generation. They encourage the Commission to refrain from approving technical requirements unless they are reasonably necessary for the safety of persons and equipment or for the reliable operation of the electric distribution system. Where studies are required to ensure that the interconnection between the non-utility generator and the electric grid is safe and reliable, they should be kept to a minimum and conducted without unwarranted delay or expense. Finally, if the Commission is to fulfill its obligation to promote distributed generation, it must at least make the rules clear, easy to follow, and uniform across utilities.

### **B. Rates**

Other comments address the financial arrangements between the non-utility generator and the public utility for services rendered and power delivered. The non-utility generator must rely on the electric utility to supply supplemental, maintenance, and backup power services, and needs rates that are reasonable and non-discriminatory. At the same time, the utility may buy power from the generators. Some commentators note the importance of setting the price of this power equal to the value of the power to the utility. Whether distributed generation is financially viable to the generator, or is unduly burdensome to the utilities, depends in part on how these prices are set.

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<sup>2</sup>Minnesota Laws 2001, Chapter 212, codified at Minnesota Statutes § 216B.1611, subd. 1.

### **III. Commission Action**

While the Commission seeks promptly to fulfill its statutory duty to issue an order establishing generic standards for distributed generation, the record of this proceeding is not yet sufficient to support such an order. The most expeditious means to build on the work accomplished thus far is to organize work groups of knowledgeable and interested participants in a collaborative setting. These work groups could develop documents and guidelines for tariffs so that anyone considering developing distributed generation could know what to expect when he or she applied for interconnection with a Minnesota electric utility.

The Commission will establish two work groups: one to address technical issues, and the other to address rates. The Commission appreciates the Department's offer to lead these groups, and will accept this offer. The Commission will direct the groups to submit progress reports to the Commission every three months. The Commission expects these groups to file their recommendations by February 1, 2003.

The Commission anticipates acting on these recommendations within three months of their filing. Ninety days following the issuance of a Commission order fulfilling the requirements of Minnesota Statutes § 216B.1611, subd. 2, retail electric public utilities must file a distribution tariff consistent with that order pursuant to § 216B.1611, subd. 3.

This schedule balances the need to respond to the Legislature's directive with the challenges that distributed generation presents.

### **ORDER**

1. The Minnesota Department of Commerce shall organize and lead two work groups, described below:
  - A. The Technical Work Group shall draft documents and guidelines for tariffs so that a person interested in developing distributed generation can apply for interconnection to any electric utility in the state with the expectation that the requirements for making interconnection –
    - 1) are uniform across electric utilities,
    - 2) are clear, concise, understandable and easy to follow,
    - 3) impose obligations only if they are reasonably necessary for the safety of persons and equipment or for the reliable operation of the electric distribution system,
    - 4) require no more than the minimum studies necessary for the safe and reliable interconnection of the unit with the electric distribution system, and
    - 5) provide for conducting any necessary studies quickly and efficiently.

- B. The Rate Work Group shall draft documents and guidelines for tariffs so that a person interested in developing distributed generation can apply for interconnection to any electric utility in the state with the expectation that –
- 1) prices for electric services provided by the electric utility to the generator – including supplemental, maintenance, and backup power services – will be reasonable and non-discriminatory; and
  - 2) prices charged for power supplied by the generator to the electric utility will reflect the value of the power to the utility.
2. Every three months between the issuance of this Order and February 1, 2003, the Department shall file reports to the Commission regarding the progress of the working groups.
  3. The Commission expects the groups shall file their final reports by February 1, 2003.
  4. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar  
Executive Secretary

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