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February 13, 2008

The Honorable Yvonne Prettner Solon  
Minnesota State Senator  
G-9, State Capitol  
75 Rev. Dr. Martin Luther King Jr., Blvd.  
St. Paul, Minnesota 55155

The Honorable Bill Hilty  
Minnesota House of Representatives  
559 State Office Building  
75 Rev. Dr. Martin Luther King Jr., Blvd.  
St. Paul, Minnesota 55155

The Honorable Ellen Anderson  
Minnesota State Senator  
120 State Capitol  
75 Rev. Dr. Martin Luther King Jr., Blvd.  
St. Paul, Minnesota 55155

Dear Senator Solon, Senator Anderson & Representative Hilty:

As directed by Laws of Minnesota 2007, Chapter 57, Article 2, Chapter 33<sup>1</sup>, the Office of Energy Security asked a number of stakeholders to work together to discuss how to promote the development of off-site renewable distributed generation in ways that do not conflict with the provisions of Minnesota law ensuring exclusive service territories for electric service. The participants in the workgroup were as follows:

*Participants*

Mike Franklin; Director, Energy & Elections Policy; Minnesota Chamber  
Mark Rathbun; Renewable Energy Project Leader; Great River Energy  
Larry Schedin; Professional Engineer; Schedin & Associates  
Lowell Rasmussen; Associate Vice Chancellor for Physical Plant and Planning; University of Minnesota at Morris  
Doug Maust; Professional Engineer; Hammel, Green and Abrahamson, Inc.  
Steven Schultz; Energy Program Manager; 3M  
Mary Jo Woolf; Manager of Regulatory Research; Xcel Energy  
Paul Lehman; Pricing and Planning Consultant; Xcel Energy  
Daniel Pfeiffer; Manager, Minnesota Governmental Affairs; Xcel Energy  
Jason Willett; Director, Environmental Services Finance; Metropolitan Council  
David Prazak; Supervisor for Pricing; Otter Tail Power

<sup>1</sup> Sec. 33. **OFF-SITE RENEWABLE DISTRIBUTED GENERATION.**

The commissioner of commerce shall convene a broad group of interested stakeholders to evaluate the feasibility and potential for the interconnection and parallel operation of off-site renewable distributed generation in a manner consistent with Minnesota Statutes, sections 216B.37 to 216B.43, and shall issue recommendations to the chairs of the house of representatives and senate committees with jurisdiction over energy issues by February 1, 2008.

Issue

On-site distributed renewable generation refers to the installation of renewable generation technologies on the "customer's side of the meter", meaning on customers' facilities, to generate energy primarily to be used onsite. Minnesota has a number of programs, policies and standards that promote the use of on-site distributed generation. However, customer facilities do not always have the kind of renewable resources on-site that make distributed generation investments economic for those customers. In those circumstances, some businesses and institutions would like additional opportunities. For example, one workgroup participant, from the University of Minnesota, would like to install wind turbines at the University's Morris campus, where the wind resource is excellent, and use the energy at the University's twin cities locations. Another participant, from 3M, said that many corporations may not be interested in owning and maintaining renewable generation equipment, but would like to increase the amount of renewable energy they use.

After a number of meetings and discussions between workgroup participants, the Office has three recommendations that we believe will be helpful.

Recommendation #1

Opportunities exist for a business or an institution to develop renewable generation off-site to be "wheeled" or transmitted by a utility third-party to where the energy would be used. Utilities must be able to recover their costs associated with wheeling this power (i.e., the incremental costs of developing and maintaining the transmission infrastructure, etc.). But as we learned in our discussions, there are a *number* of legitimate ways to calculate what those incremental costs are. Calculating these costs in such a way that impose a high wheeling charge can make these off-site installations uneconomic for a business or institution. Conversely, a low wheeling charge can make these projects cash-flow. The Office recommends that Minnesota Statutes 216B.164, subdivision 4, paragraph (c) be amended to require the Commission ensure that a utility imposes the lowest potential wheeling charge to an off-site renewable distributed generation project that recovers the utility's costs of providing the wheeling service.

(c) For all qualifying facilities having 30-kilowatt capacity or more, the utility shall, at the qualifying facility's [Note: the qualifying facility in this case is the distributed renewable generation project] or the utility's request, provide wheeling or exchange agreements wherever practicable to sell the qualifying facility's output to any other Minnesota utility having generation expansion anticipated or planned for the ensuing ten years or to wheel the output to another site owned by the owner of the qualifying facility. The commission shall establish the methods and procedures to insure that except for reasonable wheeling charges and line losses, the qualifying facility receives the full avoided energy and capacity costs of the utility ultimately receiving the output. In calculating reasonable wheeling charges, the Commission shall ensure that a utility imposes the lowest potential wheeling charge that recovers the utility's cost of provide wheeling service.

Recommendation #2

A good option for those customers that would like to increase their use of renewable energy, but are not interested in owning or installing renewable generation equipment has been utility "green pricing" programs. Under a green pricing program, a utility asks its customers to commit to

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purchase a certain amount of renewable energy, and to pay a premium over and above the usual cost of power from that utility. In Minnesota, utilities are required to offer green pricing programs to their customers pursuant Minnesota Statutes 216B.169. This requirement is set to expire as of January 1, 2010. The language of that section has been interpreted to restrict utilities to offering short-term (no more than 1 year) contracts for renewable energy purchased under a green pricing program. Large energy-consuming companies find that they receive more benefits from a green pricing program if they are able to lock in their costs for that renewable energy over a longer period of time. The municipal utility serving Austin, Texas (Austin Energy) is generally seen as having the most successful green pricing programs in the country – key to that success is allowing customers to lock in their renewable energy contracts and costs for up to 10 years.

The Office recommends that section 216B.169 be amended to specifically authorize long term contracts for those opting into a utility's green pricing program. Further, the legislature should consider eliminating or expending the expiration date.

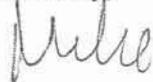
Recommendation #3

The third recommendation is a lot less specific than the first two. In the course of discussing the issues of the workgroup, it became clear that ownership of the renewable energy credits generated from any offsite distributed renewable generation facility is an important consideration. Utilities need those to meet renewable energy requirements, and customers could use the credits to help finance their projects – but the renewable attributes of each kilowatt-hour of renewable energy can and should only be counted once.

However there are a number of other developing markets for other environmental attributes of a kilowatt-hour of renewable energy, such as the amount of greenhouse gas emissions the consumption of the renewable energy displaces – the “carbon credits” associated with the renewable energy. Current practice and policies require, for legitimate public policy reasons, that all of the environmental attributes of the renewably generated kilowatt-hour be completely bundled, and all retired at the same time, once the renewable credit associated with that energy, or the carbon credit associated with that energy, is used.

On the other hand, unbundling those attributes from one another and selling them into different markets could provide revenue streams for renewable energy projects that are not currently being captured. The Minnesota Legislature has not yet had a policy discussion about bundling or unbundling the environmental attributes of renewable energy generation. The third recommendation of the Office is that the Legislature, either in the policy committees during this legislative session, or within the Legislative Electric Energy Task Force following the close of session, engage in such a policy discussion.

Sincerely,



Mike Bull  
Deputy Director, Office of Energy Security

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