



# National Energy Marketers Association

COMMONWEALTH OF MASSACHUSETTS

BEFORE THE DEPARTMENT OF  
TELECOMMUNICATIONS AND ENERGY

Investigation by the Department of )  
Telecommunications and Energy on )  
its own Motion into Distributed Generation )

D.T.E. 02-38

## COMMENTS OF THE NATIONAL ENERGY MARKETERS ASSOCIATION

The National Energy Marketers Association (NEM) hereby submits comments pursuant to the Department's, "Order Opening Investigation into Distributed Generation," and, "Request for Comments," [hereinafter "Order"] issued June 13, 2002, in the above-referenced proceeding.

NEM is a national, non-profit trade association representing wholesale and retail marketers of energy, telecom and financial-related products, services, information and related technologies throughout the United States, Canada and the U.K. NEM's Membership includes wholesale and retail suppliers of electricity and natural gas, independent power producers, suppliers of distributed generation, energy brokers, power traders, and electronic trading exchanges, advanced metering and load management firms, billing and information technology providers, credit, risk management and financial services firms, software developers, clean coal technology firms as well as energy-related telecom, broadband and internet companies.

This regionally diverse, broad-based coalition of energy and technology firms has come together under NEM's auspices to forge consensus and to help resolve as many issues as possible that would delay competition. NEM members urge lawmakers and regulators to implement:

- Laws and regulations that open markets for natural gas, electricity and related products, services, information and technology in a competitively neutral fashion;
- Rates, tariffs, taxes and operating procedures that unbundle competitive services from monopoly services and encourage true competition on the basis of price, quality of service and provision of value-added services;
- Competitively neutral standards of conduct that protect all market participants;
- Accounting and disclosure standards to promote the proper valuation of energy assets, equity securities and forward energy contracts, including derivatives; and
- Policies that encourage investments in new technologies, including the integration of energy, telecommunications and Internet services to lower the cost of energy and related services.

The Department set forth three main focus issues for this proceeding as follows: "(1) the development of interconnection standards and practices that do not threaten the reliability or safety of existing distribution systems, but also do not present undue barriers to the installation of distributed generation; (2) the appropriate method for the calculation of standby or back-up rates and other charges associated with the installation of distributed generation; and (3) the appropriate role of distributed generation in distribution company resource planning."<sup>1</sup> However the Department also sought comment on, "what other issues may be appropriate for consideration as part of our investigation of distributed generation."<sup>2</sup>

NEM appreciates the opportunity to provide these comments on the focus issues delineated by the Department. NEM has developed, "***National Guidelines for Implementing Distributed Generation and Related Services***," (a copy of which is attached hereto and incorporated by reference) which inform the comments set forth below.

## **I. Interconnection Standards and Practices**

NEM submits that national, or at a minimum, statewide technical safety and reliability requirements, application procedures, forms, standard agreements, related testing and certification requirements plus the elimination of existing penalties can reduce the costs and risks of investments by consumers in competitive new distributed generation technology.

A standard application form and process will reduce administrative costs for investors in distributed generation as well as utilities. Utility treatment of each distributed generation application as unique is time consuming and anti-competitive. NEM urges the Department to adopt a standard application process, including a timeline for utility response to an application to install distributed generation with penalties for non-performance.

Standardization of technical interface requirements will insure system safety and reliability. Interconnection devices must meet minimum standards with regard to performance, operation, testing, safety considerations, and maintenance of the interconnection. IEEE's Working Group 1547 is addressing a "Standard for Distributed Resources Interconnected with Electric Power Systems." NEM recommends that this standard be adopted uniformly across the country at the earliest possible date.

Furthermore, standardized contractual terms will reduce the time necessary for a distributed generation investment to be installed and interconnected properly. Investors in distributed generation should not be required to enter into special agreements dictating their rights and responsibilities. Requiring small investors in distributed generation to negotiate complex contracts with specialized terms and conditions is time-consuming, cost-prohibitive and anti-competitive. At a minimum, regulators should adopt fair and expedited dispute resolution processes for distributed generation projects to reduce the cost of resolving disputes.

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<sup>1</sup> Order at page 2.

<sup>2</sup> Id.

## II. Development of Distributed Generation Rates

Distributed generation provides significant value to the distribution system, even without exporting power from the distributed generation facility, and that value is normally not recognized by the utility. Distributed generation can enhance the reliability of service, reduce distribution system losses, defer distribution upgrades, provide voltage support and enhance power quality. Maintaining the status quo with existing rate designs favors large, central power plants and penalizes investments in smaller, distributed generation resources that should be an important part of this country's future energy supply.

Traditional utility rate design relies on theories of average, embedded cost-of-service pricing, and often, utilities back up rates and/or demand charges assume that at any one time all distributed generation units on the system will go off line and impose peak demand on the system. Additionally, utilities charge all incremental system costs to the distributed generation customer, but do not acknowledge any incremental system benefits. These tariff designs and assumptions represent significant barriers to the ability of consumers to make the investments needed to increase distributed generation resources and often over-price utility systems and services that are needed to implement competition.

Utility tariffs, back-up rates, demand charges as well as interconnection policies and practices should be updated and changed to reflect the value of distributed generation to the reliability of the distribution system and incent utilities to consider distributed generation as an alternative to system expansion. NEM recommends that the Department should encourage utilities to issue requests for proposals so that competitive suppliers can respond to distribution system needs by investing in distributed generation. NEM also recommends that the Department should incent utilities to contract for the generating capacity benefits from the running of the distributed generators and to purchase ancillary services from distributed generators in order to enhance system-wide reliability in a competitive, cost-effective manner.

Untimely delays and excessive charges associated with interconnecting distributed generation are significant barriers to deployment of this important resource. Fees and charges for interconnection that act as penalties for new investments in distributed generation should be eliminated. Only reasonable interconnection charges should be recovered and only if performed in a timely fashion. Conversely, penalties should apply for a utility's failure to provide timely interconnections.

Investors in distributed generation who rely on on-site power may only require power from a utility for emergency uses or scheduled maintenance but may be forced to acquire standby service only from a utility and are often forced to pay standby rates that also include uneconomically high demand charges. NEM urges that the Department should implement standby rates that only require investors with distributed generation resources to pay for the actual energy used and only when it is used. Distributed generation customers should also be able to secure standby generation service from other sources where retail choice has been enacted.

Currently, demand charges are excessive because traditional rate design collects generation and distribution costs based on a continuous-use model that assumes that a distributed generation unit

will never be running and will always be using the utility for its peak demand. Given the significant system benefits of distributed power, demand charges should be offset or eliminated to reflect these benefits.

### **III. Role of Distributed Generation in Distribution Company Resource Planning**

Distribution system planning practices should also acknowledge that distributed generation may function as a demand-side management resource to reduce customer impact on the distribution system or to enhance the reliability of the system. When forecasting the impact of distributed generation on future load requirements, the distribution utility often assumes that many small generating units will simultaneously trip off (due to an under-voltage situation), and that the distribution system must be over-sized to serve customer load absent any distributed generation. However, improved controls are now available to reduce the likelihood that these customers' loads will suddenly be added to the system.

Utilities should be encouraged to consider that deferral of system upgrades may be feasible when distributed generation is appropriately sized, sited and dispatched. Distributed generation that is appropriately planned into the utility system may be counted to stay on-line during system disturbances. During other periods, appropriately placed distributed generation may support the voltage, improve the power quality, lower the line losses, and enhance the reliability of the system. These system benefits should be reflected in utility rate design, tariffs and interconnection policies.

### **IV. Conclusion**

For the foregoing reasons, NEM urges the Department to adopt distributed generation policies consistent with the recommendations set forth above.

Sincerely,

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