National Energy Marketers Association

STATE OF NEW YORK

BEFORE THE PUBLIC SERVICE COMMISSION

Proceeding on Motion of the Commission to Examine Costs, Benefits and Rates Regarding Distributed Generation	)))	Case No. 00-E-0005
Petition to Initiate an Inquiry into the Reasonableness of the Rates, Terms and Conditions of the Provision of Electric Standby Service Filed by Independent Power Producers of New York, Inc.	)))))	Case No. 99-E-1470

INITIAL COMMENTS OF THE NATIONAL ENERGY MARKETERS ASSOCIATION ON REPORT OF THE DESIGNATED-PARTIES COMMITTEE REGARDING THE INTEGRATION OF DISTRIBUTED GENERATION IN UTILITY PLANNING PROCESSES

The National Energy Marketers Association (NEM) hereby submits Comments on the, "Report of the Designated-Parties Committee Regarding the Integration of Distributed Generation in Utility Planning Processes" (hereinafter "Report").

The National Energy Marketers Association (NEM) is a national, non-profit trade association representing both wholesale and retail marketers of energy and energy-related products, services, information and technologies throughout the United States. NEM's membership includes: small regional marketers, large international wholesale and retail energy suppliers, billing and metering firms, Internet energy providers, energy-related software developers, risk managers, energy brokerage firms, information technology providers and both manufacturers and suppliers of advanced distributed generation. Our membership has both affiliated and unaffiliated companies.

This regionally diverse, broad-based coalition of energy and technology firms have come together under the NEM auspices to forge consensus and to help eliminate as many issues as possible that would delay competition. NEM is committed to working with representatives of state and federal governments, large and small consumer groups and utilities to devise fair and effective ways to implement the competitive restructuring of electricity markets.

The January 23, 2001, letter of Judge Harrison set forth a list of six issues regarding the Report to be addressed by the parties in their comments. NEM hereby submits the following comments on the issues identified:

1. **What is the proper treatment of potential lost revenues in the evaluation of DG bids by utility companies?**

Every customer has a right to shop for the most economical and efficient source of energy and related capacity. It is the responsibility of the Public Utility Commissioner to implement regulations, tariffs, operating procedures that will facilitate customer choice, price competition and therefore lower energy prices. Given current projections for demand growth, NEM submits that utilities will likely not have generation revenue shortfalls, and indeed should be economically indifferent to using DG versus building new distribution company facilities.

NEM asserts that distributed generation should be evaluated based on its ability to provide benefits such as increased reliability, better power quality, reduced demand on the grid, lower emissions, better efficiencies through co-generation, low noise, and small footprint. The evaluation of distributed generation bids should be informed by the bidders' ability to offer those benefits.

2. **What is the proper treatment of relative environmental impacts in the evaluation of bids?**

NEM asserts that relative environmental impacts should be measured against the potential that distributed generation has to contribute to the reliability of the power grid. Consideration must be given to the reduction in spinning reserves, transmission line losses, and power factor correction realized by having distributed generation units available to provide power during times of peak demand or transmission constraints. Emissions from distributed generation units should be permitted in accordance with current laws and regulations.

Distributed generation provides opportunities to make a positive impact on the environment. However, it should be recognized that environmental impacts of distributed generation are technology and site specific. For example, solar and wind technologies will have different impacts on the environment than diesel installations.

NEM supports the development of a national emission standard for permitting of distributed generation. The development and use of such a standard will encourage growth of the distributed generation market by providing the certainty needed to spur production. It will also allow market participants to focus their

efforts on development of efficient and innovative products as opposed to having to develop products that conform to differing standards in different jurisdictions.

3. **Whether there are other factors that should be expressly included (required) in bid evaluation, and whether there should be a refined methodology for bid evaluation?**

NEM asserts that a refined methodology for bid evaluation is needed. Lengthy and subjective approval processes discourage potential market entrants from submitting bids. In addition, the lack of national uniform standards with respect to interconnection contracts, interconnection requirements and approval processes, reasonable charges for activities related to connection, and necessary insurance represents a sizable barrier to entry. Potential market participants must be provided with certainty in these areas in order to properly formulate competitive bids.

4. **Should there be a standardized contract for use by utilities and DG bidders?**
5. **Whether, if not, certain core contract terms are needed, and how soon?**

A. Standard interconnection contracts

Standard interconnection contracts are necessary to give developers and potential owners of distributed generation plants the ability to make the long-term investment these plants require.

Interconnection agreements with the electrical utility must last the lifetime of the distributed generation unit to make the economics of distributed generation work. It is not unreasonable to require electric utilities to enter into interconnection contracts for the life of the unit. The utilities are not required to buy the energy or capacity generated by the plant. They are simply agreeing to allow the customer to self-generate with a plant that will be interconnected to the electrical grid using equipment and engineering standards the utility will accept under the Interconnection Requirements.

Given that the typically small size of distributed generation plants cannot economically support negotiating a contract for each plant, a standard contract formulated with input from the distributed generation users community, manufacturers community and electric utilities under the auspices of the ISO/RTOs is necessary. The utilities should then be required to accept this contract.

Given that the legitimate concerns of the various groups are the same throughout the nation and that many of the parties involved do business nationwide, a

nationwide standard interconnection contract should be adopted by all electric utilities.

No power-plant owner would reasonably make an investment in generation equipment unless it was assured that the equipment would be allowed to connect and stay connected to the grid. The properly constructed standard interconnection contract provides for this.

B. Interconnection approval process

Standardized approval processes for distributed generation interconnection should be instituted in all ISO/RTOs and electric utilities should be required to adopt them. The approval processes should have time limits each step of the process.

Standardized approval processes allow informed decision-making and good planning by the prospective plant owner and developer. Making the process predictable allows costs to be estimated properly and encourages participation in distributed generation projects. It promotes good faith between the prospective plant owner, developer and utility.

Developers cannot make commitments to customers or financing entities if there are open-ended time limits for approval even if the developer completes its required activities correctly and on time.

Standardized approval processes reduce the burden on the courts and regulatory agencies that might otherwise be called upon to mediate disputes engendered by lengthy and non-standard approval processes.

This process should be streamlined and expedited for small units. For units below 300 kVA, the New York PSC currently requires that the utility confirm that an application has been properly completed and received within five (5) business days of receiving the application with the required fee. The utility then has a maximum of forty (40) business days to perform a Coordinated Electric System Interconnection Review and provide the applicant with a review of the proposed interconnection design package.

Following the applicant's submittal of a detailed design package, schedule and advanced payment for the utility's engineering fee, the utility has a maximum of ten (10) days for type tested systems or twenty (20) business days for non-type tested systems to provide approval or specific modifications required to the design. Based on the approved design, a standard interconnection contract is signed by the applicant with the utility.

Standardized approval processes of this type should be expanded to cover larger units. As utilities gain more experience with distributed generation, it may be appropriate to shorten these time limits.

C. Standard interconnection requirements

Standard interconnection requirements are critical to the economics of distributed generation. The small size of most distributed generation plants means that the cost per kilowatt for engineering and testing is very high relative to that of central plants. The cost of corresponding with the utility, doing the required studies, producing the drawings and testing the system can vary widely and can be prohibitive.

Standard interconnection requirements save time and money for the utility as well as the plant owner. Standard interconnection requirements allow prospective plant owners and developers to make informed decisions based on costs of interconnection equipment and engineering. Making the process predictable allows costs to be estimated reliably and encourages participation in distributed generation projects.

There is no technical reason that standard requirements for equipment, design criteria and testing cannot be published by every RTO/ISO. This has been done by the New York PSC for units of less than 300 kVA on radial distribution systems.

These requirements should be expanded to larger units and all distribution systems. While network distribution systems are inherently more complex than radial systems and may require more site testing and or extensive engineering they too should be covered by a standard interconnection requirement which has been written to accommodate their special needs.

Interconnection requirements must be written with input from distributed generation project developers, equipment suppliers and electric utilities. The ISO/RTO should facilitate and mediate these discussions. All requirements should be consistent with the standards required of equipment already on the grid as well as that of available technology.

Type testing of equipment should be encouraged in order to avoid costly, repetitive and time consuming verification tests. Utilities should be required to accept type tests in place of project specific verification testing.

Standard interconnection requirements should be universally adopted among electric utilities to the greatest extent possible. All electric utilities should have the

same legitimate concerns, thus a properly written standard interconnection requirement which addresses those concerns will be as valid for one as another. It would be most advantageous for all concerned to create a national standard.

D. Reasonable electric utility standby charges and elimination of demand penalties

Reasonable electric standby charges and elimination of demand penalties are critical to the proliferation of distributed generation.

The vast majority of distributed generation designs, whether for cogeneration base load or peaking service, rely on an interconnection with the electrical grid to provide additional power and reliability when required.

Electric utilities should be compensated for standing ready with the generation, transmission and distribution assets to provide this service. The appropriate level of compensation for the standby charge should reflect the actual costs associated with the standby service. In order to provide standby service for a 200 kW distributed generation plant, the electric utility does not need to have 200 kW of resources standing by. There should also be a relief mechanism in standby rates to cover additional standby costs for utility-forced outages.

Standby charges function like an insurance policy. While there are many distributed generation plants paying the standby charge each month, not all of these plants will be off-line and need capacity at the same time. Thus if there were 100 MW of distributed generation in a given electric utility territory, and every plant had an availability of 90%, there is an average potential for 10 MW of additional resources to be required. Since the 100 MW of generation might be distributed among perhaps 300 independent plants, probability dictates that there will not be mass outages at any given time.

In fact, market forces provide incentives for distributed generation owners to keep their plants operating at times of peak demand which is when they are most needed by the grid. Times of peak demand are when energy rates are typically at their highest. Owners benefit financially by keeping their plants running at times of peak demand.

Demand penalties should be eliminated for distributed generation plants. The standby charge compensates the utility for putting the resources in place to supply replacement power for reasonable numbers and duration of maintenance and unplanned outages. To then impose a demand charge when these resources are required is the equivalent of double jeopardy.

Distributed generation facilities that have an excessive amount and/or duration of maintenance and unplanned outages will not qualify for the normal standby rate. The additional resources they require can be paid for by increasing their standby rate which may run to the normal demand rate in the exceptional case of a truly unreliable plant. This incents distributed generation plant owners to keep their plants reliable just as auto insurance premiums linked to accidents provide an incentive for drivers to drive safely.

The imposition of a demand charge on a distributed generation owner due to a plant outage does not recognize the smaller amount of resources that must be in place to supply this need, as opposed to providing that same capacity to a customer who does not have the distributed generation plant installed.

Standby service charges should be separated into distribution, transmission and generation. The customer should only pay for the standby services needed. If multiple customers in a distribution system are provided standby generation from within the group of customers, they should only pay for standby distribution service to the utility. Transmission and generation standby services and charges would be avoided. If the customer purchases non-utility standby generation that requires the use of the transmission and distribution systems, they would then purchase utility standby transmission and standby distribution services.

The standards for the different types of outages should be determined by representatives of distributed generation owners, equipment manufacturers and the electric utility facilitated and mediated by the ISO/RTOs.

In the case where distributed generation is used primarily for emergency generation and the customer pays for standard, full-time service, the distributed generator could be dispatched (turned on) during periods of transmission constraints or generation shortages. The value of benefits to the utility generation, transmission and distribution system operation derived by the operation of the distribution generation should be paid to the distributed generation owner by the utility.

A regulated electrical distribution company should be compensated based on the resources it must prudently invest plus a reasonable profit. Standby rates should be determined on this basis.

Reasonable standby charges are the appropriate way to compensate the utility for the capacity service they provide to distributed generation plants.

6. What liability limitations are appropriate for utilities, to protect against the consequences of defaulting DG providers, and whether such provisions belong in contracts or tariffs?

A. Insurance

All insurance requirements for distributed generation plants should be eliminated including those that may be imposed by utilities to allow or facilitate interconnection.

Utilities can recover any equipment or other damages that could potentially be caused by improperly interconnected distributed generation plants through recourse to the legal system. There is no reason to impose a special penalty on distributed generation when utility equipment and personnel could be damaged by any number of entities, none of whom are required to carry special insurance for that purpose.

Further, the low penetration of distributed generation at this time means that there is not an adequate insurance pool for insurance companies to write policies nor do insurance companies have adequate knowledge of distributed generation technologies to underwrite policies effectively.

Any insurance requirement creates a substantial barrier to the proliferation of distributed generation through excessive cost and lack of insurance availability.

Conclusion

Distributed generation is a key component of any rational state energy supply and delivery strategy. Standard interconnection agreements and standby rates without demand penalties are vital to permit distributed generation to be economically dispatched. NEM urges consideration of the above comments in this proceeding.

Respectfully submitted,

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