



Summary of Best Practices Regarding Standby Rates: Simple, Transparent, and Consistent

Recommended Standby Rates Policy: Utilities and public utility commissions can make sure standby rates are fair and reasonable.

- Rates should be **transparent, standardized, predictable, and appropriately correlated to cost of service.**
- Utilities should **eliminate “demand ratchets”** – tariffs based on the customer’s maximum metered demand peak, rather than the current month’s power use.
- **Charges should be based on actual cost to the utility,** not based on the assumption electricity will be needed at peak demand.
- Where market regulations permit, utilities should work with their customers to allow Combined Heat and Power (CHP) and Waste Heat to Power (WHP) system users to **buy backup power at market rates, purchase replacement power, and offer a self-supply option for reserves.**
- **Monthly demand charges should be replaced with daily demand charges.**

Recommended Standby Rate Policy: We urge state public utility regulators to work with utilities in the state so that they adopt fair and transparent standby tariffs, which allow utilities to recover costs and encourage reductions in peak load. One way to advance this goal is to follow the case study of development and implementation of standby rates in Minnesota presented in Appendix A. This model tariff was originally developed by the Midwest Cogeneration Association in the tariff proceeding in that state. It is based on the following best practice principles:

- Tariffs should **incorporate “time of use” charges** or a mix of “time of use” charges and fixed charges as a reasonable proxy for “time of use” charges;
- **Where fixed charges are employed, they should be based on the CHP system’s actual forced outage rate (FOR) or a good approximation of that rate** (e.g. equipment class outage rate);
- The tariff should **incorporate cost-based price differentials for peak/off-peak demand,** to encourage system hosts to schedule outages for off-peak periods; and
- Tariffs should **include additional reasonable price differentials to encourage scheduled maintenance which reduces unscheduled outages.**

Recommended Transparency Policy: Commissions should require each utility to offer an online bill standby rate calculator and provide a clear and concise summary of the standby tariff.

Recommended policy modeled on best practices in other states:

- AEP Ohio and Dayton Power & Light both offer online bill calculators.
- In Minnesota, as of October 2017, the Public Utilities Commission requires Minnesota Power, Xcel Energy and Dakota Electric to follow the model provided by Otter Tail Power of **offering customers a concise two-page “explainer” document to accompany the published standby tariff.**
- in Michigan, the MPSC Staff Standby Rate Working Group Supplemental Report, issued in June 2017, recommended: **“To assist with standby service tariff transparency, a clear and concise description of the tariff structure and each term used should be included with the tariff.”**



Appendix A

The state of Minnesota has taken a set of actions that have produced a model in how states might address standby rates:

The Minnesota Department of Commerce Division of Energy Resources wrote a report, “Analysis of Standby Rates and Net metering Policy Effects on Combined Heat and Power (CHP) Opportunities in Minnesota” that included an analysis and recommendations (p. 11-12) for modifications to the state’s standby rates: <http://mn.gov/commerce-stat/pdfs/card-report-anal-standby-rates-net-metering.pdf>.

Subsequently, the Minnesota Public Utilities Commission ordered that all rate-regulated utilities file updated standby service tariffs. In a response filed in the proceeding, the Midwest Cogeneration Association offered a framework for designing and assessing utility standby tariffs, a “Model Standby Service Tariff Template” (Table 10):
<https://www.edockets.state.mn.us/EFiling/edockets/searchDocuments.do?method=showPoup&documentId={1FC7286C-9402-4BC4-8CF8-C86C200F26FF}&documentTitle=201611-126407-01>.

In its final revisions of its standby service tariffs, Xcel Energy included many of the principles from the Model Standby Service Tariff Template:
<https://www.edockets.state.mn.us/EFiling/edockets/searchDocuments.do?method=showPoup&documentId={A04F4562-0000-C41E-BC79-EED85CC84353}&documentTitle=20183-141223-01>.

Said revisions were later approved by the Commission:
<https://www.edockets.state.mn.us/EFiling/edockets/searchDocuments.do?method=showPoup&documentId={E008E462-0000-C919-97C8-93AA49C41404}&documentTitle=20184-142155-01>.

For more information please contact:

Lynn A. Kirshbaum
Deputy Director, Combined Heat and Power Alliance
lynn@dgardiner.com
703-717-5595