

Staff Briefing Papers

Meeting Date December 14, 2017 Agenda Item **5

Company: Xcel Energy (Xcel or the Company)

Docket No.: **E-002/M-17-425**

**In the Matter of a Petition by Xcel Energy for Approval of
Solar Energy Standard Customer Exclusion Cost Treatment**

Issue: Should the Commission approve Xcel’s request for a method
to exclude Solar Energy Standard (SES) exempt customers
from SES-related costs in accordance with Minn. Stat. §
216B.1691, subd. 2f(f)?

Staff: Susan Mackenzie susan.mackenzie@state.mn.us 651-201-2241

Relevant Documents

Date

Xcel Energy	May 26, 2017
Department of Commerce	July 26, 2017
Xcel Energy reply	August 7, 2017

To request this document in another format such as large print or audio, call 651.296.0406 (voice). Persons with a hearing or speech impairment may call using their preferred Telecommunications Relay Service or email consumer.puc@state.mn.us for assistance.

I. Statement of the issue

Should the Commission approve Xcel's request for a method to exclude Solar Energy Standard (SES) exempt customers from SES-related costs in accordance with Minn. Stat. § 216B.1691, subd. 2f(f)?

II. Background

On May 26, 2017, Xcel filed a request for approval of a mechanism to implement the SES customer exclusion provision under Minn. Stat. § 216B.1691, 2f(f). On July 26, 2017, the Department of Commerce (DOC or the Department) filed comments recommending rejection and refiling. No other parties filed comments.

This provision of statute states:

- (f) For the purposes of calculating the total retail electric sales of a public utility under this subdivision, there shall be excluded retail electric sales to customers that are:
- (1) an iron mining extraction and processing facility, including a scam mining facility as defined in Minnesota Rules, part 6130.0100, subpart 16; or
 - (2) a paper mill, wood products manufacturer, sawmill, or oriented strand board manufacturer.

Those customers may not have included in the rates charged to them by the public utility any costs of satisfying the solar standard specified by this subdivision.

Xcel's current petition and these briefing papers address the Company's proposal to exempt qualifying customers from SES-related costs.¹ In a preceding docket, the Commission established an SES-exempt customer approval process by which customers receive notice, apply for, and are approved to receive cost exemption treatment (see Docket No. E-999/CI-13-542).

As of June 1, 2017, Xcel had approved only two customers for SES cost exclusion under the Commission-established process. No additional customers have applied or been approved for exemption since that time.²

III. Parties' comments

Xcel's petition

¹ In its Petition, Xcel indicated that it followed the process established by the Commission (in Docket No. 13-542) for identifying and approving exempt customers. The Company described the process on page 4 of its Petition.

² In its June 1, 2017 Annual Report, in Docket No. E-999/M-17-283, Xcel indicated that two customers had been approved for SES cost exemption.

To address the requirements of Minn. Stat. § 216B.1691, 2f(f), Xcel proposed to credit back to its two SES-exempt customers the aggregate value of SES costs recovered through three riders rather than to exclude the costs as they are incurred. The Company believes this plan complies with the statutory provision that “customers may not have included in the rates charged to them” the cost of satisfying the SES. It is also consistent with the Company’s rate case settlement.³

Xcel’s solar costs are included in three separate rider mechanisms, each of which functions in a different way. In order to provide monthly billing to its two qualifying customers, Xcel would need to create a separate solar excluded customer rate factor for each of the three riders. In addition, it would need to forecast a test year recovery amount followed by a true-up of these amounts. These changes would require revisions to Xcel’s automated billing. The Company argued that there is no practical way to do this and instead proposed an annual credit process to achieve the same result.

Under Xcel’s proposal, customers would receive a credit or refund annually, to be calculated at the end of the year and applied to bills beginning March 1. The SES-exempt cost would be manually credited to the SES-exempt customers’ bills and appear as a separate line item. SES-exempt costs in each of the three riders would be combined into a single line item credit called “Annual Solar Exclusion.” Xcel noted there would be a “*de minimis*” chargeback to SES-exempt customers through the riders. For example, for the RDF rider (where the most SES costs are collected), the per-customer charge for SES-exempt costs would be less than \$0.000002/kWh under the example for 2016. Xcel does not believe there is a practical way to manually exclude this *de minimis* amount each month.

Xcel noted that all utilities subject to the SES are required to exclude qualifying customers who request and are approved for exclusion. It acknowledged that Minnesota Power (MP) submitted a plan approved by the Commission that differs significantly from Xcel’s plan.⁴ Xcel is in a different position than MP, having only two SES-exempt-qualifying customers. In addition, the Settlement Agreement from the current rate case prevents the Company from proposing any new rate rider mechanisms for the test period of the multi-year rate plan (2016 through 2019). Given the differing positions of Xcel and MP, the Company believes it has proposed an alternative approach that is practical, equitable and meets the needs of its customers.⁵

³ Xcel noted that its rate case settlement agreement, in Docket No. E002/GR-15-826, states: “For the term of the Settlement, the Company may use only the riders identified in the MYRP Revenue Rider Schedule. Any rider recovery during the term will be in addition to the rate increases under the Settlement.” Thus, Xcel believes creating a new rider for SES-cost exemption, similar to Minnesota Power, is not an option. MP proposed a new Solar Energy Adjustment (SEA) rider to recover SES-exempt customers’ costs. Under Xcel’s rate case settlement, the Company believes it is prohibited from creating a new rider to separately recover these costs.

⁴ See Orders issued in Docket No. E-015/M-15-773 on February 24, 2016, May 13, 2016, and December 12, 2017.

⁵ Xcel Petition, May 26, 2017, p. 13.

In sum, Xcel believes its proposal meets statutory requirements, is in keeping with other regulatory cost treatment mechanisms, and is reasonable and practical.

SES-exempt cost calculation

In developing its methodology, Xcel began with the assumption that the Company's compliance with the SES statute is achieved through retirement of solar RECs. Solar RECs are acquired through a variety of solar projects where the Company has authority to retain them. Costs associated with acquiring solar RECs are a component of three different rider rates. The costs in each of these riders vary based on the project capacity and the program under which the costs are incurred. As a result, the calculation of incremental solar costs must be performed separately for each solar program and for each cost recovery mechanism. Xcel believes that its proposed approach: quantifying the SES-related costs separately for each program and then calculating a factor to credit separately for each affected rider, is transparent and equitable for both SES-exempt and non-exempt customers.

Incremental solar costs attributable to the SES are included within the following programs and riders: (1) the Fuel Clause Adjustment (FCA), (2) the Renewable Development Fund (RDF), and (3) the Conservation Improvement Program (CIP). In its Petition, Xcel provided information on each of these riders as well as the specific program costs eligible for exemption within the riders.⁶ The following programs and riders include incremental solar costs attributable to the SES:⁷

Fuel Clause Adjustment (FCA):

- Solar*Rewards Community program for projects where the Company owns the solar RECs.
- Solar Power Purchase Agreements (PPAs) for the energy the Company purchases, but excluding Renewable*Connect PPAs. (This includes utility-scale solar PPA projects as well as smaller PPA projects that are part of the RDF program.)

Renewable Development Fund (RDF):

- Solar*Rewards incentive through the RDF for rooftop solar projects.
- Made in Minnesota incentives for rooftop solar projects (80% funded by RDF).
- Development grant funds issued for projects where Xcel owns the solar RECs.

⁶ Attachment 1 (in Xcel's May 26, 2017 Petition) shows an illustrative example of the SES-excluded cost calculation for 2016. Xcel believes that the statutes underlying certain solar programs are the basis for the SES cost exemption. The Company referred specifically to Minn. Stat. § 116C.7791, subd. 5, for the Minnesota Bonus Rebate Program, and § 116C.7792, for the Company's Solar*Rewards Program. However, staff notes that in the future, if the use of program funds deviates from statutory direction for solar rebates and solar energy incentives, the Commission may wish to reconsider the exemption of costs associated with these programs (and recovered through the riders).

⁷ Xcel included the costs for projects completed after August 1, 2013.

- Renewable Energy Production Incentives (REPI) for projects where Xcel owns the solar RECs.

Conservation Improvement Program (CIP):

- Made in Minnesota incentives for rooftop solar projects (20% funded by CIP).

To credit SES-exempt customers for the incremental solar costs charged through the FCA, Xcel isolated solar PPAs and the PPA costs net of avoided energy costs.⁸ This number was divided by the total FCA system sales to calculate the solar rate. The rate is to be multiplied by the SES-exempt customer's sales to arrive at that individual customer's FCA refund amount.⁹

To credit customers for the SES-related costs recovered through the RDF rider, Xcel identified three legislative mandates containing solar costs (intended to meet the SES statute) that are recovered through the RDF rider.¹⁰ Also included in the exemption calculation are incentive costs for projects that deliver net-metered energy and are recovered through the RDF rider.¹¹ Total SES program costs included in the RDF are divided by kWh sales. This rate is multiplied by the SES-exempt customer's sales to calculate a refund of SES costs recovered through the RDF rider.¹²

About 20 percent of the Made in Minnesota Account program cost is funded through Xcel's CIP.¹³ Xcel proposed to isolate these costs and divide them by CIP kWh sales.¹⁴ The resulting rate is multiplied by the SES-exempt customer's sales to calculate a refund of the solar portion of the customer's CIP charges.¹⁵ In the event that an SES-exempt customer is CIP-exempt, their

⁸ Xcel provided a list of Commission-approved solar projects (see Xcel's May 26, 2017 Petition, Fn. 3).

⁹ Attachment 2, in Xcel's May 26, 2017 Petition, shows the incremental solar costs isolated in the FCA rider for 2016.

¹⁰ These three programs include the Made in Minnesota Solar Energy Production Incentive, the Minnesota Bonus Solar Rebate Program, and the Solar*Rewards Incentive Program. Xcel described each of these in its May 26, 2017 Petition (page 7).

¹¹ Xcel noted that for RDF programs that issue grants that result in PPAs, energy costs are recovered through the FCA.

¹² Attachment 3, in Xcel's May 26, 2017 Petition, shows an example of solar excluded costs charged through the RDF rider.

¹³ Minn. Stat. § 216C.412 was repealed in 2017. Xcel indicated that, after 2017, there will be no additional invoices for the Made in Minnesota Program.

¹⁴ Note that the CIP sales base differs from the total Company sales base because some customers are exempt from the CIP rider.

¹⁵ Attachment 4 of Xcel's May 26, 2017 Petition shows an example of solar costs charged through the CIP rider.

bill credit would not be included in the CIP portion of the SES exemption cost calculation. The two customers approved for SES-exemption are not CIP-exempt.¹⁶

Process for crediting SES-exempt customers

Given the small number of customers eligible for exemption at this time, Xcel believes it is more practical and efficient to credit back to exempt customers the SES costs that have been billed, rather than to exclude the costs from each rate rider at the time billed. In order to exclude the costs on a monthly basis, Xcel would need to create a solar excluded cost rate for each of the three riders (FCA, RDF and the CIP riders). The rate would then need to be applied on a monthly basis to individual customer bills. Xcel believes that an annual credit process will achieve the same outcome and is more practical and efficient.

In addition, Xcel believes that a credit of actual costs at the end of the year will provide customers with a better sense of their total SES-exempt costs, as opposed to a forecast at the beginning of the year (or month) to be followed by a true-up at the end of the forecast period.¹⁷ Of note is the fact that solar production is still ramping up for many of Xcel's solar facilities and programs. Thus, at this time, a forecast methodology could require significant true-ups.

Recovery of SES-exempt costs

The SES costs not paid for by the SES-exempt customers will be recovered from Xcel's customer base through the same three riders (FCA, RDF and CIP).¹⁸ For the RDF and CIP riders, Xcel makes annual filings to true-up the tracker accounts and set new rates. The Company proposed to include an annual true-up adjustment to account for the SES-exempt cost recovery in each of these annual rider filings.¹⁹ The adjustment would reflect the total actual SES-exempt cost credit amount returned to SES-exempt customers in the prior year.²⁰

¹⁶ Due to the fact that there were no Community Solar Gardens in-service in 2016 and the Company's three utility-scale solar projects (Marshall, North Star, and Aurora) began operation in late 2016, Xcel expects SES-exempt costs in 2017 to be greater than those shown in the 2016 examples provided in Attachments 1-4.

¹⁷ Separate monthly SES-exempt cost rate factors would need to be based on a forecast with a subsequent true-up. All three of the riders use forecasted costs and sales.

¹⁸ The SES-exempt costs are not reallocated to the non-exempt customers, instead they are recovered from all customers (the customer base), including the SES-exempt, but Xcel is arguing that this amount is *de minimus* and that it would be impractical and not cost-effective to iteratively recalculate and recover based on these *de minimus* amounts.

¹⁹ Costs recovered through the FCA would be recovered beginning in March 2018. Costs related to the RDF (now RDA) and CIP riders would be added in the next annual rider adjustment and recovered over the corresponding year. The next RDA filing will be in Oct 2018 (recovery beginning January 2019). The next CIP rider filing will be in April 2018 (recovery beginning October 2018).

²⁰ Attachment 5 in the Company's Petition includes the red-lined tariff sheets (for the FCA, RDF and CIP riders), reflecting Xcel's plan for SES-exempt costs recovery.

For the FCA rider, Xcel proposed to recover the SES excluded costs annually in the fuel clause filing for the month of March.²¹ As noted, recovery will begin in March 2018. The lag in cost recovery is similar to the cost and revenue true-up that currently exists in other tracker mechanisms and will have a small impact on the overall FCA rider true-up at Xcel's current levels of exemption.

Timing of the customer exclusion

All SES-exempt customers who have been approved for exemption by June 1 will be credited solar exempted costs dating from June 1 of the year they receive exemption approval. Credits will be issued for the first time in March 2018 for the period June 1, 2017 through December 31, 2017. After a customer's first year of SES cost exemption, their credit will include all months in the prior year.²² As explained above, these credited amounts will then be recovered from Xcel's customer base through rider recovery in 2018 and 2019.

SES-exempt customers are ineligible to participate in solar programs

Xcel explained that any customer who participates in a solar program that incurs SES costs is ineligible for SES-cost exclusion. Also, any customer who is exempted from the SES costs is ineligible for participation in a solar program that incurs SES-related costs.²³ Xcel plans to monitor customers' SES-exempt eligibility upon receiving applications for exemption. The Company will audit customers for cross-program participation each year at the time bill credits are issued.

Compliance and reporting

Xcel is currently required to provide SES-exempted customers' retail sales by premise in the June 1 SES Annual Report. As part of this reporting, the Company suggested it could also provide the customers' total SES-exempted costs for the reporting year.²⁴

²¹ Xcel explained that it will continue to record all SES costs in the appropriate FERC accounts for each rider. It will continue to account for the billing of these costs in the same manner. It further explained and provided an example of FERC accounting for refunded amounts (see Xcel's May 26, 2017 Petition, page 11).

²² For example, the two customers currently approved for exemption effective with Xcel's SES June 1, 2017 Annual Report would receive a credit (or refund check) in March 2018 for the actual June-December 2017 SES costs they were charged through each rider based on their actual June-December 2017 sales. The FCA portion of that credit would be added back to the FCA in March 2018 or the next month. The RDF and CIP portion of their refund would be included in the respective annual rider filings for recovery.

²³ This includes Xcel's Solar*Rewards and Solar*Rewards Community programs, as well as the Department's Made in Minnesota program.

²⁴ The reporting form includes a table for reporting the SES-exempt customers' retail sales. The Company proposed to add a column to show the total excluded costs for each premise.

In addition, Xcel proposed annual adjustments to each of the rider cost recovery mechanisms (FCA, RDF and CIP riders) to recover the SES-exempt costs. These would appear as a separate line item in each of the rider tracker accounts.

Customer notification

Each year Xcel will send all SES-exempt customers a letter prior to their March bill, notifying them that the SES-exempt cost credit will be issued for the prior year in their March bill.²⁵

Additional SES-exempt customers

Xcel acknowledged that if a greater number of SES-exempt customers are approved, it may result in diminishing efficiency in performing a manual calculation and credit. In the event that the number of exempted customers grows, the Company may request Commission approval of recommended changes to its current plan.²⁶

Jurisdictional issues

Since the SES is a Minnesota state mandate, Xcel explained that all cost associated with the SES are assigned to the Company's Minnesota jurisdiction and will not be allocated to Northern States Power Company—Wisconsin customers through the Interchange Agreement.²⁷ Xcel is not seeking changes to jurisdictional recovery of any costs in this docket.

Department of Commerce (Department or DOC)

The DOC argued that Xcel's proposal does not comply with statutory language, which it believes requires Xcel to eliminate costs associated with SES compliance at the time of initial billing for each of the riders. It recommended that the Commission reject Xcel's proposal and require the Company to refile a proposal that excludes SES costs at the time of initial billing.

To comply with statute, the DOC argued that Xcel would need to exclude the costs associated with SES compliance from each of the three rider rates at the time these rates go into effect. For each of the three riders, the Department argued that Xcel could develop a separate rate (or factor) for SES-exempt and non-exempt customers, followed by a true-up of costs in the next annual rate rider filing. Although more complicated, the DOC argued this would ensure SES-exempt customers are not billed for solar costs.

²⁵ Attachment 6 in Xcel's Petition is a proposed notification letter.

²⁶ According to Xcel, aspects of the plan that may need to be reconsidered include: (1) a forecasted exempt amount included in rider recovery requests with forecasted test years, (2) a forecasted bill credit for SES-exempt customers, and (3) an automated billing approach.

²⁷ Staff note: Staff assumes Xcel's statement on jurisdictional issues is for informational purposes only and that the Company is not seeking approval of the jurisdictional treatment of SES costs as part of the current filing (see Decision Option #7).

Xcel's response to the Department

In response to the Department's argument that the Company's proposal did not comply with statute, Xcel stated:

In its Comments, the Department quotes the relevant statute and states that it understands the law to require that customers are excluded from paying solar costs at the time those costs are billed. We believe in reaching this conclusion, the Department misapplies the rules of statutory construction, ignores precedent, and may undercut Commission authority to exercise discretion. The statute does not require that solar costs are excluded "at the time those costs are billed," and the Department is not permitted to read such a phrase into the statute.

There are well-established precedents that expose customers or utilities to a limited period of lag. For example, the Company's rider mechanisms are designed to true-up to actual costs, so there is always a lag in which customers are not billed the precise recoverable costs.

In addition, the SES statute is silent on the process by which it should be applied, and the Commission has discretion to implement the statute as it sees fit. For instance, the statute does not prescribe how solar excluded customers are to be identified, and so the Company proposed, and the Commission approved, the process for identification and approval of those customers. We have proceeded with developing a proposal that we believe meets the requirement of the statute and achieves its intended outcome.

(Xcel, August 7, 2017, p. 2.)

Xcel continued to maintain that it had put forth a practical proposal to implement the provision of the statute on behalf of its two affected customers. The proposed refund mechanism relies on actual rather than forecasted data. It is a transparent solution that allows customers to realize the benefits to which they are entitled through an annual on-bill financial adjustment. Xcel argued that the Department's recommendation would require the development of a series of new rates exclusively for the benefit of a very small subset of customers. Xcel also argued that the Department's recommendation is unlikely to lead to increased accuracy at the time of billing. The forecasted costs included in the solar and non-solar rate would themselves be subject to a constant true-up cycle.

Xcel noted that the Commission has found mechanisms similar to the one proposed in this docket to be reasonable, including mechanisms that necessitate lag. These include true-ups, trackers, and deferred accounting. Xcel noted that the Commission has concluded that such mechanisms are reasonable in a variety of circumstances where substantially greater customer interests are at stake.²⁸ Regardless of the ultimate mechanism approved by the Commission for this purpose, the use of a lagged refund is inevitable in year one at a minimum.

²⁸ Xcel, August 7, 2017, pp. 2-4.

IV. Staff discussion

A threshold issue for the Commission is whether Xcel's proposed SES cost exclusion method complies with statute. To this end, staff believes that the proposal is allowable under law and consistent with precedent and normal ratemaking considerations.²⁹ Staff believes there is nothing in the statutory language that prohibits the Commission from considering the annual credit approach proposed by Xcel. Xcel's approach preserves the statute's goal that qualifying customers not pay for SES-related costs, resulting in a final rate paid by the SES-exempt customers that does not include these costs. In addition, staff believes the true-up and refund of rates at the end of the year under Xcel's proposal are more transparent and straightforward than the DOC's proposal, and will be more understandable to both exempt and non-exempt customers.³⁰ Staff therefore believes Xcel's proposal balances consistency with the statute with the interests of ratepayers.

The Department argued that charging SES-exempt customers the costs of satisfying the SES subject to a full refund is not permitted by statute, because "rates charged" would include SES costs. This reading is highly restrictive of the Commission's ability to reasonably interpret the statute's primary purpose, which is to identify SES-exempt customers who should not pay SES costs. To apply this language in the literal manner the DOC proposes would require a complicated, potentially expensive methodology when Xcel's more transparent method to achieve the goal is available.

If the Commission finds that the statute would allow for Xcel's approach, it should next consider timing and the need to get a credit mechanism in place. Rejecting the proposal and requiring Xcel to refile would delay the start of the refund to qualifying SES-exempt customers, possibly up to six months or more. Staff notes that the exclusion language was part of legislation passed in 2013. The delay in implementing this legislation, which is the responsibility of the Commission, argues for a prompt decision.

Given that there are only two exempt customers at this time, it may not be cost-effective to incur the costs to establish the DOC's proposed upfront monthly adjustment with the required forecasting, as well as development of rate factors and automated billing changes that would be required for all three riders. Staff notes one option is to allow the Company to use the proposed method for two years but require a re-evaluation in the fall of 2019. In its Petition, Xcel indicated that if the number of exempted customers grows, it would re-evaluate the proposed method.

Staff notes that the exemption language in Minn. Stat. § 216B.1691 is very specific. Not all solar costs are "costs of satisfying the solar standard" (see Minn. Stat. § 216B.1691, Subd. 2f, *Solar energy standard*). SES-exempt customers are to be excluded only from the costs of satisfying

²⁹ Many different types of riders and other rate elements are true-up annually.

³⁰ Under the Company's proposal, there is no need to establish and apply a separate SES-exempt cost factor within each rider or to forecast and then true-up the forecasted recovery amount within each rider for both SES-exempt and non-exempt customers.

the SES and not more broadly from all solar costs. For this reason, Xcel began the development of its exclusion methodology with the assumption that compliance with the SES statute is achieved through the retirement of solar RECs, and exempt customers will be exempted from the cost of solar RECs retired to meet the SES. Of note, for compliance year 2016, Xcel retired a certain number of solar RECs to meet the Renewable Energy Standard (RES). However, this amount was less than 1% of the total RECs retired for the 2016 compliance year (or about 0.18%). If Xcel continues to retire solar RECs for the RES, the Commission may wish to monitor the retirement process more closely to ensure that Xcel's solar RECs (the costs for which exempt-customers are being exempted) are retired to meet the SES (i.e. held in a subaccount for future SES retirement or retired to an Xcel SES retirement account) and not retired or sold for other purposes.

While staff supports Xcel's petition, the Commission should note that the proposal is limited to the billing mechanism for excluding SES-costs from exempt customers and does not contain a final discussion of what types of solar costs might be categorized as SES compliance costs. The Commission has exercised and will continue to exercise its authority to review solar PPA prices or owned solar generation for utility-scale projects. As to the small scale solar requirement, there remain unanswered questions such as, should low income solar program costs not specifically tied to Xcel's acquisition of solar RECs be treated as an SES compliance costs for exemption or should these costs be recovered as part of Xcel's traditional low income program cost recovery? A low income solar program is not absolutely necessary to meet the SES and yet it may fill other important state energy goals such as affordability. Later filings may need to address these issues.

Relevance of Xcel's Rate case settlement agreement

Xcel's recent rate case settlement agreement, in Docket No. E002/GR-15-826, states:

For the term of the Settlement, the Company may use only the riders identified in the MYRP Revenue Rider Schedule. Any rider recovery during the term will be in addition to the rate increases under the Settlement.

Staff believes the terms of the settlement are not relevant to whether the Commission can adopt the DOC recommendation. The DOC's proposal would require the Company to create a rate factor within each of the three existing riders and Xcel does not appear to be prohibited from doing so under the terms of the settlement agreement.

However, based on the settlement agreement, Xcel pointed out that creating a new rider for SES-cost exemption, similar to the rider approved for Minnesota Power, is not an option. MP proposed a new Solar Energy Adjustment (SEA) rider in order to separately charge and recover SES-exempt costs as part of the Company's fuel clause. Under Xcel's rate case settlement, the Company is prohibited from creating such a new rate rider.

Accounting for solar benefits

As part of the first step in its review of Minnesota Power's SES cost exemption methodology, the Commission decided that MP's proposed methodology did not fully account for solar benefits. It required the Company to file a revised methodology appropriately accounting for this solar value.³¹ Specifically, it asked MP: (1) to propose a method that better reflected actual avoided energy costs due to SES additions, and (2) to assess the applicability of the VOS Methodology avoided cost components.³²

In the current case, no party has proposed that Xcel's methodology be revised to more adequately account for solar benefits. This may be due to the fact that there are currently only two Xcel customers seeking exemption. To determine a method and value stream for an adjustment to account for solar benefits would be time-consuming and resource intensive, as it was in the MP case. For the same reason the DOC proposal may not make sense at this time (i.e. it does not make sense when there are only two customers to develop new rate factors for each rider and perform forecasts and true-ups), neither does it make sense to add additional steps and complexity to account for solar benefits. However, both issues may need to be revisited in the future.

SES annual reporting requirement

Currently, SES-cost exemption information is part of the reporting requirement for the SES annual reports.³³ Staff recommends that the Commission continue to require consistent reporting on SES cost exemption across the three utilities subject to the SES.

In the case of MP (in 15-773), the Commission required additional reporting, including the total costs apportioned to and recovered from solar-paying (non-exempt) customers under Minn. Stat. § 216B.1691, subd. 2f(f) that would have been recovered from exempt customers.³⁴ Staff suggests the Commission require Xcel to report the same additional information in its SES Annual Report.³⁵

³¹ The Commission required MP to include an appropriate solar value adjustment in the Company's proposed Solar Energy Adjustment (SEA) Rider (in Order, in 15-773, issued February 24, 2016, p. 8, Ordering Points 7a and 7b).

³² *Order Granting Petition in Part and Requiring Reevaluation of Solar Energy Adjustment Rider*, in Docket E-015/M-15-773, issued February 24, 2016, p. 6. See also *Order Denying Reconsideration*, in 15-773, issued May 13, 2016; and *Order Limiting Cost Recovery, Approving Fuel and Purchased Energy Adjustment Rider Revision, and Approving Proposed Solar Energy Adjustment Rider*, in 15-773, issued December 12, 2016.

³³ See *Order*, in Docket 13-542, issued October 23, 2014, p. 5, Ordering Point 2a, requiring all utilities subject to the SES to report in the June 1 Annual Report on "Excluded sales only from customer that have requested and been approved by utilities for exclusion from the Solar Energy Standards requirements."

³⁴ *Order*, in Docket No. E-015/M-15-773, issued February 24, 2016, p. 8, Ordering Point 11.

³⁵ Xcel indicated that it is currently required to provide SES-exempted customers' retail sales by premise in the June 1 SES annual report but that it is willing to provide customers' total exempted costs for the reporting year as well.

In sum, staff believes Xcel's proposal is consistent with statute. It balances statutory requirements with the interests of ratepayers. Other than the Department, no party has objected to the timing of bill credits or any other aspect of the proposal. Staff notes that Xcel argued that the Department's recommendation may not lead to increased accuracy at the time of billing. The Commission has on many occasions approved mechanisms, similar to Xcel's proposal in this case, that necessitate lag (i.e. true-ups, trackers, and deferred accounting solutions among others). As noted by Xcel, the Commission has concluded that such mechanisms are reasonable in a variety of circumstances where substantially greater customer interests are at stake.

An annual credit process as proposed by Xcel will achieve the result of ensuring SES-exempt customers do not pay for the cost of SES compliance. Staff believes that to reject the filing and require Xcel to refile, as the DOC proposed, will delay the start of a refund to SES-exempt customers and create unnecessary complexity and expense.

V. Decision options

1. Approve Xcel’s proposal: (1) identifying specific SES-related costs for exemption, (2) for crediting those SES-related costs back to SES-exempt customers, and (3) for recovering SES-related costs from the Company’s customer base. Find that if funding for Xcel’s Solar*Rewards, Minnesota Bonus or Made In Minnesota Programs is changed and directed for uses other than solar rebates or solar energy incentives as directed by statute, these funds may not be eligible for exclusion. Approve revisions to the Company’s Minnesota Electric Rate Book, as proposed by the Company, including Sheet Nos. 5-91 (FCA), 5-92 (CIP), and 5-143 (RDF) to be effective 10 days from the date of the Order in this matter. *(Xcel Energy)*
2. Deny Xcel’s petition. Require the Company to refile its proposal to provide for excluding SES costs from exempt customers’ bills at the time of initial billing. *(Department)*
3. Require Xcel, by October 1, 2019, to submit a filing in the current docket that re-evaluates the issue of timing for the SES-exempt customer refunds, as raised by the DOC, as well as other relevant issues, including the need for an adjustment to the exemption methodology to appropriately account for benefits of solar. *(Staff provided this decision option for Commission consideration.)*
4. Find that the costs associated with solar RECs not retired for the purpose of meeting Minn. Stat. § 216B.1691 subd. 2f will not be permitted for exclusion in rates charged to exempt customers.

SES annual reporting requirements

5. As part of its Solar Energy Standard (SES) annual reporting, require Xcel to include all relevant information, including but not limited to the total costs that have been apportioned to and recovered from solar-paying (non-exempt) customers under Minn. Stat. § 216B.1691, subd. 2f(f) that would have been recovered from exempt customers. *(Staff note: This is the same additional information required of Minnesota Power in its SES cost exemption docket, Docket 15-773.)*

Notification of SES-exempt customers

6. Require Xcel to work with the Commission’s Consumer Affairs Office (CAO) on the Company’s SES-exempt customer notification letter, included as Attachment 6 in Xcel’s May 26, 2017 Petition, but indicate that final approval by the Executive Secretary is not necessary.

Jurisdictional issues

7. Find that, in this docket, the Commission is not reaching a decision on the recovery, allocation or assignment of any costs for the Northern States Power Company—Wisconsin customer Interchange Agreement or for other state jurisdictions.

(Staff note: Staff assumes Xcel's statement on jurisdictional issues is for informational purposes only and that the Company is not seeking approval of the jurisdictional treatment of SES costs, or any costs, as part of the current filing.)

Eligibility of SES-exempted customers to participate in solar programs

8. Find that, as proposed by Xcel in its May 26, 2017 Petition, any customer who participates in a solar program that incurs SES costs is ineligible for SES-cost exemption and any customer exempted from solar costs is ineligible to participate in a solar program that incurs SES-related costs.

Compliance filings

9. Where not otherwise specifically required, order Xcel, within 30 days of the Order in this matter, to submit compliance filings and updated tariff sheets to reflect the Commission's decisions.