

June 29, 2018

PUBLIC DOCUMENT

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

RE: **PUBLIC Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. E002/M-18-252

Dear Mr. Wolf:

Attached are the **PUBLIC** comments of the Minnesota Department of Commerce, Division of Energy Resources (Department), in the following matter:

Northern States Power Company d/b/a Xcel Energy's Request for Approval of its proposed Renewable*Connect 2019 Month-to-Month and Special Event rates and its 2019 Neutrality Charge. Xcel Energy is also requesting that the Commission accept this filing as its partial year 2017 Compliance Report.

The petition was filed on April 2, 2018 by:

Holly Hinman
Regulatory Manager
Xcel Energy
414 Nicollet Mall
Minneapolis, MN 55402

The Department recommends **approval of Xcel Energy's petition, with conditions**, and is available to answer any questions the Minnesota Public Utilities Commission may have.

Sincerely,

/s/ JOHN KUNDERT
Financial Analyst

JK/ja
Attachment



Before the Minnesota Public Utilities Commission

PUBLIC Comments of the Minnesota Department of Commerce Division of Energy Resources

Docket No. E002/M-18-252

I. BACKGROUND

The Minnesota Public Utilities Commission (Commission) approved Northern States Power Company d/b/a Xcel Energy's (Xcel or the Company) "Renewable*Connect" and "Renewable*Connect Government" tariffs in its "ORDER APPROVING PILOT PROGRAMS AND REQUIRING FILINGS" dated February 27, 2017 (ORDER) in Docket No. E002/M-15-985 (15-985 docket).

II. SUMMARY OF XCEL'S PETITION

On April 2, 2018, Xcel filed a petition with the Commission for approval of the Company's proposed 2019 Month-to-Month and Special Event rate¹ as well as its proposed Neutrality Charge, which is included in the Month-to-Month or Single Event rate. The Company also provided Commission-required compliance information identified in the Commission's ORDER.

III. DEPARTMENT'S ANALYSIS

The Minnesota Department of Commerce, Division of Energy Resources (Department) provides the following analysis of Xcel's proposed 2019 Month-to-Month or Special Event rate, and its compliance with the informational reporting requirements specified in the Commission's 15-985 ORDER.

A. 2019 MONTH-TO-MONTH AND SPECIAL EVENT RATE, AND NEUTRALITY CHARGE

The Company is proposing that the 2019 rate be set at \$0.03599 per kWh. The proposed 2019 rate is \$0.00022 higher (0.6%) than the 2018 rate of \$0.03577 per kWh.

¹ There is a single rate that applies to both participation categories.

The proposed 2019 Renewable*Connect Month-to-Month and Single Event rate consists of four components.²

- **Resource Cost:** the cost incurred to acquire the dedicated resource (in the case of the proposed resources, determined by an existing power purchase agreement)
- **Administrative cost:** costs for initial program setup and ongoing program administration
- **“Neutrality Adjustment” charge:** intended to account for line losses, curtailment costs, renewable energy integration, system balancing costs, and the potential for stranded resources or other adverse economic impacts arising from dedicating the resources to program participants
- **Capacity credit:** intended to reflect the value of additional capacity attributable to participation in the program.

TRADE SECRET Table 1 below provides the information for the Month-to-Month and Single Event rates for 2018 and 2019.³

TRADE SECRET Table 1 – Comparison of 2018 and 2019 Month-to-Month Renewable*Connect Proposed Rates (¢/kWh)

Component	Year		Annual Change	
	2018	2019	Nominal	Percentage
Resource Cost (Less) Capacity Credit	[TRADE SECRET DATA HAS BEEN EXCISED]			
Net Energy Resources Cost				
(Add) Neutrality Charge	0.4770	0.4830	0.0060	1.3%
Total Resource Cost	[TRADE SECRET DATA HAS BEEN EXCISED]			
(Add) Administrative Cost				
Delivered Resource Cost	3.5770	3.5990	0.0220	0.6%

The Resource Cost is determined by the pricing in the two Power Purchase Agreements (PPA) that are identified as the sources of energy for Renewable*Connect. The proposed 2019 Resource Cost identified in **TRADE SECRET** Attachment D of Xcel’s filing in the 15-985 docket

² See ORDER at page 4.

³ Xcel provided an example of this calculation in Attachment D of its filing in the 15-985 docket for readers interested in its derivation.

provided those costs, which the Department verified. The Administrative Cost is determined annually. The fact that the Administrative Cost decreased on a per-kilowatt hour basis in the second year of the program offering is not entirely unexpected since program start-up costs are typically higher than the administrative costs associated with maintaining an existing program.

As noted previously, the Neutrality Charge is a rate component that attempts to estimate the system-related costs incurred to balance the renewable energy produced under the two PPAs with the program participants' hourly usage. The all-important aspect of the Neutrality Charge is the value of the balancing service system resources provide to program participants.

The Company stated in its Petition that it "has not yet developed a methodology to measure the value of the balancing service, but in the future the Company plans to outline a value range of this service based on physical resources necessary to provide the necessary balancing service."⁴

In DOC Information Request No. 5, the Department asked Xcel when it plans to provide that information regarding the value of the balancing service. Xcel stated: "The Company plans to share more information on this topic in its 2019 Compliance Filing."⁵

The Department notes that we did express "concern about the amount of record information supporting the reasonableness of the proposed neutrality adjustment" in our comments in the 15-985 docket and we continue to harbor those concerns.⁶ We recommend that the Commission require Xcel to provide its proposed methodology for calculating the value of balancing and the Neutrality Adjustment as well as support for its approach in its 2019 Compliance filing.

Aside from the balancing issue subsumed within the Neutrality Charge, the Company did not propose to change its approach for calculating the Neutrality Adjustment or the Capacity Credit. Given that the Commission approved those approaches in its ORDER in the 15-985 docket,⁷ the Department recommends that the Commission approve the proposed 2019 Month-to-Month or Special Event rate.

⁴ Filing at page 7.

⁵ A copy of DOC Information Request No. 5 in this docket is included as Attachment A.

⁶ ORDER at page 6.

⁷ The ORDER at page 6 required Xcel to update the "pricing assumptions and calculations to reflect MISO-accredited wind- and solar-capacity values for 2016/2017 planning year." Xcel provided that update in its compliance filing dated March 9, 2017.

B. COMPLIANCE WITH THE 15-985 ORDER

The Commission's ORDER in the 15-985 docket required information regarding:

1. program participants;
2. wind and solar production;
3. program income, expenses, and resulting tracker balances;
4. incremental financial impacts for program participants;
5. incremental financial impacts for non-participants;
6. incremental effect on Xcel's base rates, and
7. summary information on the number of, and revenue derived from, terminating program participants.

The Company provided that information for calendar year 2017, which represents a 9-month time-period of program activity. The Department reviewed the information provided regarding items numbered 1 through 3 and 6 and 7 above and concludes that Xcel complied with the requirements included in the Commission's ORDER. The Department has no specific comment or issue with the information Xcel provided pertaining to items 1 through 3 and 6 and 7. We discuss items 5 and 6 in the following paragraphs. The Department also provides some summary information regarding the Renewable*Connect tracker balance.

The Renewable*Connect and Renewable*Connect Government programs had an under-recovered tracker balance in aggregate as of December 31, 2017. Table 2 summarizes the combined Renewable*Connect and Renewable*Connect Government tracker balance as of December 31, 2017.

Table 2 – Combined Renewable*Connect Tracker Calendar Year 2017

Description	Reporting Period
Total Revenue	\$1,641,113
Total Expenses	\$1,965,265
Over(Under) Recovery	(\$324,152)

Turning to the issue of the incremental effects of Renewable*Connect on participants and non-participants, parties discussed this issue at length in the 15-985 docket. As the Commission noted in its ORDER:⁸

⁸ ORDER at page 5.

But, as the [Office of the Attorney General, Residential Utilities and Antitrust Division] argued, whether or not non-participants are shielded from excess cost will depend on how the cost components are calculated. If the costs are not accurately determined “non-participants could be exposed to additional costs for the full life of long-term contracts.”

Xcel explained in its petition that the Renewable*Connect customers’ Month-to-Month rate was higher than the corresponding monthly fuel clause adjustment during the nine-month period covered by the filing. Although not stated explicitly, this information suggests that Renewable*Connect participants paid more on a per-kWh basis for “fuel costs” than they would have had they not elected to join the Program. The inverse also appears to be the case, non-participants who paid the standard fuel clause adjustment (FCA) during that nine-month period paid less on a per-kWh basis for fuel costs than program participants.

The Company also provided a second analysis that compared the appropriate Midwest Independent System Operator (MISO) locational marginal prices (LMPs) to the blended cost of the solar and wind resources allocated to Renewable*Connect. This analysis determined that program non-participants had benefited by approximately [TRADE SECRET DATA HAS BEEN EXCISED] over the nine-month period in question.

The Department will continue to monitor the financial impacts of the Renewable*Connect programs as additional information is provided in Xcel’s annual compliance filings.

VI. CONCLUSIONS AND RECOMMENDATIONS

The Department concludes that Xcel’s April 2, 2018 filing complied with the reporting requirements contained in the Commission’s February 27, 2017 Order in Docket No. E002/M-15-985.

The Department recommends that the Commission approve Xcel’s proposed 2019 Month-to-Month and Special Event Rate, which incorporates an updated Neutrality Charge and Capacity Credit. The Department also recommends that the Commission require Xcel to provide proposed revisions to its methodology for calculating the Neutrality Adjustment, as well as support for the proposed approach, in the Company’s April 1, 2019 Compliance filing.

/ja

- Not Public Document – Not For Public Disclosure
 Public Document – Not Public Data Has Been Excised
 Public Document

Xcel Energy

Docket No.: E002/M-18-252

Response To: Department of Commerce Information Request No. 5

Requestor: John Kundert

Date Received: May 9, 2018

Question:

Topic: Balancing service compensation

Reference(s): Page 7 of the filing

- A. Provide a narrative that outlines the Company's current methodology for valuing balancing services for non-Renewable*Connect resources.
- B. When will the Company provide its "outline of a value range for balancing services based on the physical resources necessary to provide balancing service"?

Response:

- A. The Company has not established a methodology for valuing balancing service at this stage of the pilot. However, one important factor will be the timing of program usage and the associated renewable energy production.
- B. The Company plans to share more information on this topic in its 2019 annual compliance filing.
-

Preparer: Nick Paluck

Title: Rate Consultant

Department: Regulatory Analysis

Telephone: (612) 330-2905

Date: May 18, 2018

CERTIFICATE OF SERVICE

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

**Minnesota Department of Commerce
Public Comments**

Docket No. E002/M-18-252

Dated this 29th day of June 2018

/s/Sharon Ferguson

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