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In the Matter of Northern States Power Co. d/b/a Xcel Energy's Petition for Approval of Capacity*Connect, a Distributed Capacity Procurement (DCP) Program

PUC Docket Number: E002/25-378

Supplemental Comments

LIUNA Minnesota and North Dakota ("LIUNA") appreciates the opportunity to offer reply comments on the petition by Xcel Energy ("Xcel") for approval of the proposed Capacity*Connect Distributed Capacity Procurement program. After having reviewed and considered initial and reply comments filed by various parties, LIUNA continues to strongly support and urge Commission approval of the Capacity*Connect petition as proposed by Xcel.

We agree with the Department of Commerce ("Department") that the program should prioritize and structure battery deployment in a manner that supports robust evaluation of their potential benefits and use cases, although we are not persuaded that this requires segmenting the program into multiple pilots described by the Department as "archetypes". Instead, we believe that the program should prioritize deployment of batteries across distribution locations with diverse characteristics along with collection of data needed to support evaluation of a wide range of costs and benefits, including those outlined in the Department's comments.

Utility Ownership of Assets

LIUNA does not object in principle to the idea of third parties bidding competitively to deliver battery storage services – a model that we already see being deployed on the transmission grid. However, we strongly support arguments made by Xcel for limiting the proposed Phase 2 deployment to batteries that are fully owned and operated by the utility.

In our view, it would be entirely impractical to design a fair Request for Proposal ("RFP") process and standard contractual language for a service whose essential attributes have not been fully characterized. If the ultimate goal of the program was to simply to engage in energy arbitrage by dispatching power to the bulk system, there might be a stronger argument for establishing a competitive program although there we would still have concerns over how the program would manage unknowns related to operation of assets on the distribution grid.

In this case, however, the ultimate goal is to derive *distribution* benefits which could include better utilization of capacity, better real-time management of power flows to improve reliability, avoidance of capital expenditures on grid upgrades. In order to run a fair process, Xcel would have to be able to produce an RFP and contract that detail a long list of minimum operating standards and likely payment terms that reward maximization of benefits – mechanisms that are well-developed for far-simpler but still complex transmission-connected resources.

Unfortunately, we currently know very little about what magnitude of benefits can be delivered, at what cost and what trade-offs exist within those parameters. We can't appropriately benchmark costs and benefits, nor do we know how to treat operational inputs that likely impact them – for example, should requirements and metrics in a competitive contract for Capacity*Connect services be weather-normalized because very cold or hot weather could significantly impact day-to-day performance and life, or is that unnecessary.

Beyond the near impossibility of developing meaningful RFPs and contracts without the very information Capacity*Connect is designed to produce, it is unclear to what degree third-party ownership will actually make sense as a business proposition. As Center for Energy and Environment points out, comparisons to Xcel's Colorado Aggregated Virtual Power Plant ("AVPP")program are inapt because that program only requires participants to make battery services on a limited basis, allowing the battery to largely serve the owner's storage needs. Under Capacity*Connect, batteries will be entirely controlled and operated by the utility for the benefit of the system, which means that third party owners would be unable to reliably offer extra benefits to hosts or leverage them to create an additional revenue stream.

Advocates of incorporating third-party ownership seem to misunderstand the nature of the program and treat it is an opportunity for third-party owners to have their cake and eat it too, while if the program is run effectively, all of the "cake" will be consumed by the system by the benefit of all ratepayers. In theory, third-party owners might believe that they can operate distribution grid storage assets better than the utility, but since we don't yet know how to characterize relevant operational benefits and put them in an RFP and contract, the difference largely falls to cost of ownership, and it is extremely unlikely that any third party will finance projects at a lower cost than Xcel or get better deals on technology.

Prospective third-party owners should instead welcome deployment of Capacity*Connect as proposed, which could pave the way for ownership competition if that turns out to be feasible and desirable based on operational learnings. Given the difficulties in filling an existing legislative mandate with far-simpler distribution-grid solar resources that meet Xcel's RFP requirements, it would make much more sense to focus on solving that problem before diving into third-party ownership within Capacity*Connect.

Sparkfund Selection

LIUNA strongly disagrees with suggestions made by the Department and other parties suggesting that use of Sparkfund as an implementation partner might be a cause for concern. Based on the fact that battery deployments of the type proposed in Capacity*Connect are nearly nonexistent, and that Sparkfund is one of very few organizations with relevant operational experience, we believe that it is entirely appropriate to select Sparkfund as manager of what is essentially a large-scale pilot, and we do not believe it forecloses use of competitive procurement processes in future rounds.

The statement that the selection could expose Xcel to avoidable financial risks is based on a misunderstanding of a program in which roughly 80% of expenditures will be based on competitive RFPs for technology, construction and other services. Further, ratepayers will not be

exposed to undue risk because deployment will occur over time with close monitoring of costs and results, and can be paused long before reaching the maximum approved investment if costs are found to be excessive.

Equity

We appreciate the thoughtful comments and proposals submitted by Fresh Energy and are optimistic that the program can help advance their goals, and those of organizations based in environmental justice communities based on our conversations. Capacity*Connect has the potential to advance equitable delivery of electric service in multiple ways, the most important by far would be by enabling Xcel to maintain or improve reliability while reducing cost through improved utilization of existing infrastructure. Residents of environmental justice communities and other low-income customers are highly cost-sensitive, so Capacity*Connect and other initiatives that constrains or lowers system costs will disproportionately benefit these customers, just as rising costs disproportionately harm them. While Xcel and Sparkfund can and should pursue additional equity benefits, it is important that they not come at the expense of cost-effective program implementation.

Residents of environmental justice communities and low-income customers could also benefit directly from Capacity*Connect as site hosts, programs vendors, or workers employed to build and maintain program assets. We recommend that Xcel and Sparkfund prioritize employment equity in program implementation, because these benefits are broad based and certain based on successful programs such as Power Up. We specifically suggest that Xcel and Sparkfund partner with Building Strong Communities in order to leverage the program to expand access to construction careers for underserved communities. We also recommend that Xcel and Sparkfund explore opportunities to involve firms based in environmental justice communities that can show that they deliver local equity benefits, working through Xcel's existing certified business pipeline and additional outreach by Sparkfund.

Siting of battery storage in environmental justice communities could also have a significant positive impact where hosts are community or public institutions or locally-owned businesses that can benefit from long-term lease payments, as long as the installations are welcomed by communities and the locations can deliver anticipated system benefits. Equally important, siting batteries in environmental justice communities would help Xcel assess the degree to which these assets and deliver community-level benefits such as reduced congestion or improved reliability, in addition to system-level benefits.

For these reasons, we recommend that Xcel and Sparkfund prioritize siting opportunities in environmental justice communities where pursuing these opportunities is consistent with larger program priorities. We do not support a requirement that a certain percentage of investments be made in certain communities, because we do not know to what extent such locations will prove feasible and cost-effective, nor can we yet be certain that the batteries will actually deliver community-level benefits beyond lease revenues paid to a given host.

We thank the Commission for its consideration in this matter.

Sincerely,

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