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October 1, 2014

Burl W. Haar
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. E002/M-13-867

Dear Dr. Haar:

The Minnesota Department of Commerce, Division of Energy Resources (Department) is filing these comments on Community Solar Garden financing and financing adder considerations as requested by the Minnesota Public Utilities Commission (Commission).

The Department is available to answer any questions the Commission may have.

Sincerely,

/s/ HOLLY LAHD
Rates Analyst

HL/lt
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

DOCKET No. E002/M-13-867

I. INTRODUCTION

The Minnesota Department of Commerce (Department) appreciates the opportunity to submit comments on community solar garden (CSG) financing and the possibility of an “adder.” In its September 17, 2014 *Order*, the Minnesota Public Utilities Commission (Commission) directed parties “to engage in further discussions and to file comments by October 1, 2014, regarding the appropriate adder, if any, to apply in conjunction with a proposed value-of-solar rate to ensure that the community-solar-garden program reasonably allows for the creation, financing, and accessibility of solar gardens.” The Department looks forward to reviewing comments by solar developers and other parties on solar market financing conditions and their proposed financeable subscriber rates for community solar gardens. At this time, the Department submits the following comments on community solar financing rate design considerations, the design of a potential “adder,” and reply comment period.

II. DEPARTMENT ANALYSIS

A. FINANCEABLE RATE DESIGN CONSIDERATIONS

The CSG statute requires that approved plans reasonably allow for the creation, financing, and accessibility of solar gardens.¹ However, the statute does not define what constitutes a financeable plan for Minnesota community solar gardens.

In researching financing structures and rate considerations, the Department reviewed the following publicly-available Community Solar resources:

¹ Minn. Statute 216B.1641(e).

- [Federal and State Structures to Support Financing Utility-Scale Solar Projects and the Business Models Designed to Utilize Them](#) (April 2012). National Renewable Energy Laboratory.
- [Utility Community Solar Handbook: A Development Guide for Utility-Managed Community Solar Programs](#) (May 2013). Solar Electric Power Association.
- [A Guide to Community Solar: Utility, Private, and Non-Profit Project Development](#) (May 2012). National Renewable Energy Laboratory.
- The U.S. Department of Energy's [SunShot Initiative website](#).

In reviewing these resources, the Department found many different community solar business models and financing considerations. When considering what constitutes a financeable plan and subscriber credit rate, it becomes clear that the financeable rate also depends on the rate design goals for community solar gardens. Specifically, the financeable rate level may change depending on whether the subscriber credit rate is designed around the:

- *Expected subscriber investment payback period.* The payback period is a function of the initial investment level required to cover solar garden costs, as well as the solar energy credit rate. For community gardens to be successful, potential subscribers need to see the estimated payback period as reasonable. Designing a rate around a reasonable payback period requires data on the expected solar garden capital and “soft” costs (such as permitting, interconnection, installation, financing, customer acquisition, and related costs) that make up the initial investment.
- *Relationship to the customer's retail rate.* Community solar gardens are often described as a way for subscribers to offset or reduce their overall electricity bill. If connecting the credit rate to the effective retail rate is important to the Commission, the Commission should consider ways the credit rate (including any adders) can be updated as retail rates change.
- *Third-party financier requirements.* Community solar gardens in other parts of the county have used different types of third-party financing arrangements to take advantage of the investment tax credit and other programs. The rate of return and other financing conditions required by third-party financiers should be considered in determining the subscriber credit rates, as rates that do not meet third-party financier requirements will not make a CSG plan financeable. The Department will provide more comments on this topic after reviewing solar developers' and other parties' comments.
- *Trends in solar costs.* Solar energy project costs include capital costs, such as the panels and maintenance equipment, and soft costs. The U.S. Department of Energy's SunShot Initiative aims to reduce solar costs by 75 percent by the year 2020; this goal translates into a cost of \$0.05 to \$0.06 per kWh of solar energy. The SunShot Initiative has already claimed 60 percent progress towards these

cost goals.² As both capital and soft costs change, the financing requirements and resulting financeable rate levels should be reevaluated for new projects. Continuing to collect solar installation costs can help inform the evaluation of the financeable rate requirements in the future.

B. FINANCING ADDER IN ADDITION TO A VALUE OF SOLAR (VOS) RATE

It is clear that if the Commission wishes to use a VOS rate for CSGs and the VOS rate is below what is determined to be a financeable rate, then some type of adder would be needed to fill the gap between the two rates. The Department continues to recommend that the level of an adder, if any, be determined after the record on financeable rate requirements and Xcel's 2015 VOS calculated rate is developed.

C. REPLY COMMENT PERIOD

The Department requests that the Commission issue a reply comment period notice so that the Department and other parties may respond to the financing and adder comments submitted by other parties. The Department recommends that the Commission delay any decision on a financing adder to the VOS rate until after Xcel files the updated VOS calculation on March 1, 2015. The adder will depend not only on the level of a financeable rate but also the level of the VOS rate.

/lt

² U.S. Department of Energy Solar Technologies Office. *Getting to Ubiquitous Solar*.
http://energy.gov/sites/prod/files/2014/06/f16/minh_le_sunshot_portfolio_overview_2014.pdf.

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
Comments**

Docket No. E002/M-13-867

Dated this **1st** day of **October 2014**

/s/Sharon Ferguson

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
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