



**STATE OF MINNESOTA
PUBLIC UTILITIES COMMISSION**

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**In the Matter of the Petition of Northern States Power Company, dba Xcel Energy, for Approval of Its
Proposed Community Solar Garden Program**

PUC Docket Number: E-002/M-13-867

**SoCore Energy Comments on an appropriate adder to apply to a proposed value-of-solar rate to
ensure compliance with statute**

October 1st, 2014

SoCore Energy (“SoCore”) appreciates the time, effort and care that the Commission has dedicated to establishing Minnesota’s groundbreaking Community Solar Gardens (CSG) program. We are pleased to offer these comments, as the Commission considers options to ensure that the CSG program may “reasonably allow for the creation, financing, and accessibility of community solar gardens”¹ as the Legislature intended.

(1) Concerning an Appropriate Adder

With respect to the VOS rate, SoCore agrees with other parties in the case who have maintained that the revised Year 1 VOS rate of \$0.094/kWh, as proposed in Xcel’s June 19th Reply Comments, is not currently sufficient to attract investors, relative to other renewable energy investment options available in the U.S. market. As we noted in our June 19th Reply Comments,

“.... developers and investors need to be able to earn a sufficient rate of return on their investment in Community Solar Gardens. Renewable energy investors have many options to choose from when deciding where and how to deploy capital. If Minnesota is to attract investment into the Community Solar Gardens program, it has to structure the program and tariff amount to provide for an

¹ Minn. Stat. § 216B.1641(e)(1).

appropriate rate of return on capital deployed by developers and financiers.”
SoCore Reply Comments at 2.

SoCore supports applying an adder on top of the proposed VOS rate as a sensible mechanism to help the CSG program attract investors. In theory, an economically efficient adder would perfectly fill the gap between the VOS rate and a minimum financeable rate. Unfortunately, there is no “one size fits all” adder value that meets this objective for all possible CSG projects and every developer. Project costs depend on land acquisition costs, interconnection costs, project size, location (ground, roof, or parking canopy), subscription business model, and the financial status of the developer, among other variables. Certain characteristics that increase costs in one area may be compensated by other characteristics that decrease costs in another area or increase project revenues. In SoCore’s opinion, getting the starting adder price “right” is not as important as implementing a sustainable and transparent structure to the program.

SoCore suggests that the adder structure be designed with the following goals and principles in mind:

- (1) If the Commission’s primary objective of introducing an adder to the VOS rate is to ensure the financability of CSGs and thus get the market moving, we recognize that a secondary objective may be to provide a sustainable framework for the adder so that its price tag and duration does not challenge the goodwill of Minnesota legislators and ratepayers.
- (2) In that sense, the Commission could consider the adder the catalyst that gets the fly-wheel moving on what ultimately becomes a sustainable, long-term, and cost-effective CSG program at the VOS rate.
- (3) To manage the program effectively over time, the Commission may want to consider an adder structure with an initial price sufficient to jump start development, and a mechanism to adjust subsequent prices up or down to ensure that the adder is “in market.” An upwards or downward adjustment could be triggered by the level of market response at the previous adder price. The experience of other solar markets throughout the country and the world demonstrates that the revenues necessary for solar projects to “pencil” typically decline over time as solar costs come down and markets mature. That said, we believe it is important to retain flexibility to adjust the adder upwards in case of sluggish market response.
- (4) The structure and timing of the adder adjustment periods must be transparent and predictable for all market participants. Developers need to know what the adder is and what it is going to be in the future. It is critical that the adjustment rules and trigger points are visible to all and that participants can (1) track in real time how much capacity/time is left to secure the current adder price, (2) see what the next adder price will be, and (3) predict when the price adjustment will trigger. Avoiding sudden or unpredictable price shifts and “boom-bust” cycles is of paramount importance.

(2) Concerning the VOS escalation rate

Establishing a fixed, as opposed to floating, VOS escalation rate over the 25 year term would also greatly improve the CSG program's ability to attract financing. As we noted in our June 19th Reply Comments,

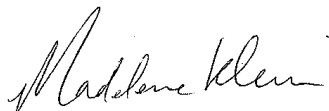
“Because the future inflation rate (CPI) is a variable factor, financiers will inevitably take a conservative view and discount the escalation rate below the historical average inflation rate, leading to a higher cost of capital.” SoCore Reply Comments at 2.

Adopting Xcel's Figure ES-2 in the June 19th Reply Comments (Attachment A, Page 3 of 18) as an *actual* schedule of yearly VOS rates, as opposed to merely an illustration, would eliminate the uncertainty associated with the CPI. Investors would be able to count on a known revenue stream from a CSG project over the 25 year contract term, which would “de-risk” the investment. This would have a dual effect of increasing the availability of financing for CSGs and reducing the interest rate that investors will charge for CSG project financing.

(3) Conclusion

SoCore encourages the Commission to consider a combination of an intelligently-structured adder framework and a fixed escalation rate in order to catalyze a successful CSG program that utilizes the VOS construct. We appreciate the opportunity to offer comments on these issues and we look forward to further discussion.

Respectfully,



Madeleine Klein
Senior Vice President of Policy & Strategy
SoCore Energy, LLC