

**STATE OF MINNESOTA
PUBLIC UTILITIES COMMISSION**

Beverly Jones Heydinger	Chair
David C. Boyd	Commissioner
Nancy Lange	Commissioner
J. Dennis O'Brien	Commissioner
Betsy Wergin	Commissioner

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

MINNESOTA SOLAR ENERGY INDUSTRY ASSOCIATION'S COMMENTS ON THE COMMUNITY SOLAR GARDEN PROGRAM'S ADDER

Docket No. E-002/M-13-867

Date: 10/1/2014

**COMMENTS OF THE MINNESOTA SOLAR ENERGY
INDUSTRY ASSOCIATION**

INTRODUCTION

The Minnesota Solar Energy Industries Association (MnSEIA) respectfully submits these comments regarding an appropriate adder to apply to a proposed value-of-solar (VOS) rate to ensure compliance with Minnesota statutes.

BACKGROUND

On April 7, the Minnesota Public Utilities Commission (the "Commission") ordered Xcel Energy ("Xcel") to file a tariff implementing a VOS rate for community solar gardens (CSGs), or to file a calculation of the VOS rate for solar gardens and show cause why the rate should not be implemented.¹ A lengthy comment period ensued.

In response to the Commission's orders, many of the testifiers illustrated a need for additional funding before the VOS could be properly implemented in the CSG arena.² The Department of

¹ See ORDER APPROVING SOLAR-GARDEN PLAN WITH MODIFICATIONS, PUC, Docket No. E-002/M-13-867, Doc. ID. 20149-103114-01, at 1 (9/17/2014) [hereinafter, *Approval Order*].

² See REPLY COMMENTS ON XCELS MOTION TO SHOW CAUSE, Fresh Energy, Environmental Law & Policy Center, Institute For Local Self-Reliance, & Izaak Walton League Of America, Docket No. E-002/M-13-867, Doc. ID. 20146-100607-02, at 2 (6/19/2014); See also REPLY COMMENTS – ON XCEL ENERGY MOTION TO SHOW CAUSE, Socore Energy, Docket No. E-002/M-13-867, Doc. ID. 20146-100613-01, at 2 (6/19/2014).

Commerce's Energy Resources Division (DER) also weighed in on an adder program. Feeling that the record was not fully developed, DER devised a plan, whereby the parties could discuss what an appropriate adder is.³ The discussion period was suggested from October to March.⁴ DER recommended that the Applicable Retail Rate (ARR) should serve as the interim rate, until the Commission determines a proper CSG adder.⁵

On August 7, 2014, the Commission took verbal testimony from multiple stakeholders. Some parties argued for the Department's recommendation and others argued for the immediate adoption of a CSG-specific rate, which incorporated the VOS.⁶ Then the Commission ordered the following:

Direct the 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 compliance with the community-solar-garden statute, including, but not limited to, a requirement that the community-solar-garden plan approved by the Commission reasonably allow for the creation, financing and accessibility of community solar gardens.⁷

In essence, the Commission adopted DER's proposal, and has now asked the parties to begin commenting upon what the CSG adder should be.

COMMENTS

1. The Community Solar Gardens Program Needs An Adder In Order To Meet Multiple Statutes' Legislative Intent.

a. The law requires that the CSG rate at least equal the Applicable Retail Rate for the first three years.

The VOS statute illustrates a legal need for an adder. According to Minn. Stat. 216B.164, "The Commission may not authorize a utility to charge an alternative tariff rate that is lower than the utility's applicable retail rate until three years after the Commission approves an alternative tariff

³ See REPLY COMMENTS, DOC DER, Docket No. E-002/M-13-867, Doc. ID. 20146-100612-01, at 4-6 (6/19/2014).

⁴ See *Id.*

⁵ See *Id.*

⁶ See ORAL TESTIMONY, Docket No. E-002/M-13-867, (8/7/2014) [*referencing* Fresh Energy's verbal commentary and unpublished letter, and MnCommunity Solar's verbal commentary].

⁷ NOTICE OF CONFIRMATION OF THE OCTOBER 1, 2014 COMMENT DATE, Docket No. E-002/M-13-867, Doc. ID. 20149-102912-01, at 1 (9/8/2014).

for the utility.”⁸ The Legislature has commanded that the value provided to CSGs must be higher than the ARR for at least the first three years of the program. Because the VOS is currently lower than the ARR, some sort of adder is required until approximately 2017.

Furthermore, the statute provides guidance on how the PUC should interpret Minn. Stat. 216B.164’s language. According to subdivision titled “Scope and Purpose,” “This section shall at all times be construed in accordance with its intent to give the maximum possible encouragement to cogeneration and small power production consistent with protection of the ratepayers and the public.”⁹ The Legislature has a clear desire to encourage solar development and the Commission is required to follow its directive.

b. In order to reasonably allow for the creation, financing, and accessibility of Community Solar Gardens, providing value for the additional costs associated with garden operations is necessary.

The VOS without an adder is insufficient for CSG development. The law requires that the Commission reasonably allow for the “creation, financing and accessibility of community solar gardens,” but the current rate will not allow for that.¹⁰ CSG creation requires **at least \$.15/kWh** and the current VOS is a levelized value of **\$.1208/kWh**. The rate disparity arises, because CSGs provide more benefits for consumers than traditional installations. CSGs have great customer care, allow for easy transferability, and have more consumer protections.

But the increased benefits require increased costs. There are six CSG specific price driving factors, and they are as follows:

1. 25 Years of Customer Care:

CSGs will have many customers that will inevitably have questions, comments and concerns. The CSG model incorporates these customer interests by having a management program that fields phone calls. Additionally, the CSG management program provides for easy subscription transfers. If a subscriber wants to leave the garden they are free to do so. These two primary customer care benefits will come at the installer’s, or operator’s, expense and are unique to CSGs.

2. Disclosure Requirements:

Another CSG specific cost is the PUC ordered disclosure requirements.¹¹ Unlike traditional solar installations, CSG installers must provide information on “the future costs and benefits of

⁸ Minn. Stat. § 216B.164, subd. 10.

⁹ Minn. Stat. § 216B.164, subd. 1.

¹⁰ Minn. Stat. § 216B.1641 (e)(1).

¹¹ See *Approval Order*, *supra* note 1 at 16.

subscription, a copy of the solar-garden contract, a copy of the solar-panel warranty, proof of insurance, proof of a long-term maintenance plan, production projections, and operator contact information.”¹² These extra documents will create more consumer protections, but will also generate added research, printing, labor, and legal costs for installers.

3. Attorney Opinion Letters;

A traditional solar installation does not require an attorney to approve the development. But CSGs do require Attorney Opinion Letters.¹³ This additional legal fee is variable, as it ranges with the garden’s complexity, but it results in added consumer protections. The cost of this benefit, however, adds to the installer’s legal expenses.

4. Xcel Energy CSG Fees;

The Commission has approved CSG specific fees, which manifest themselves in different forms. Some of them are clearly fees. Xcel assesses them on the installers. But there are other fee-like costs associated with Xcel’s CSG program.¹⁴ For instance, the security deposit may not be a fee *per se*, but it is on the installers to procure upfront financing, requiring both time and money. These actual and effective fees both pertain only to CSG installations.

5. 25 years of CSG management; and

While traditional solar installations do have operations and maintenance associated with them, CSGs are larger and require a separate managerial schema. Because of the volume of subscriptions, many installers will develop self-governing LLCs to operate the financial escrows. Whether the installation company opts to create an LLC, or manage the escrows itself, this is an additional time and financial constraint that only CSGs require.

6. Higher per customer acquisition costs

A traditional solar installation has one, or a few, customers. Often those customers seek out the installer for estimates. A single CSG, however, requires many subscribers. CSGs are a great energy investment product for many consumers, so a majority of the initial subscribers will come on their own accord. But generally additional marketing is required to fill up the remaining subscription slots.

Furthermore, CSGs are a new way to purchase solar energy. Not every consumer currently understands how beneficial CSGs can be for them. So our installers will also need to educate potential customers. Our installers, specifically those working on residential and small

¹² *Id.*

¹³ *See* ORDER REJECTING XCELS SOLAR-GARDEN TARRIFF FILING AND REQUIRING THE COMPANY TO FILE A REVISED SOLAR-GARDEN PLAN, PUC, Docket No. E-002/M-13-867, Doc. ID. 20144-98041-01, at 20 (04/07/2014).

¹⁴ *See Approval Order, supra* note 1 at 8 (9/17/2014).

commercial CSGs, will need to solicit and educate consumers more than they do with their traditional solar installation sales models. These CSG marketing and education costs indicate a need for more value added to the VOS.

While the VOS may be sufficient for a traditional solar installation, these six CSG related costs require additional offsets. Therefore, an adder is necessary, if the Commission wants the CSG program to allow for the creation, financing and accessibility of community solar gardens.

c. The law also requires that the CSGs that do exist benefit the public interest.

There are other statutory mandates for the CSG program that point to a legislative desire for a CSG rate that is higher than the current VOS. In addition to meeting the requirement that the Commission allow for CSG creation and financial accessibility, any developed garden must benefit the public.¹⁵

The public interest requirement is a Minnesota-centric directive. When adopting the 2013 solar energy legislation package, the Legislature manifested an intent to keep a significant portion of CSG's economic benefit within the state. To do so, a rate that will allow Minnesota installers to hire local workers at fair wages and buy state made products is desirable. Clearly, \$.15/kWh will allow out of state solar companies to build in-state CSGs, but more importantly, it will also ensure that some of the CSG program's economic benefit will stay in Minnesota.

The public interest requirement necessitates sustainable, high quality CSGs that are installed by skilled workers. Some organizations may state that CSGs can be built at a rate below the \$.15/kWh we've advocated for since the beginning of this docket. But a lower CSG rate may diminish the enthusiasm for garden development among Minnesotans that are ready to support sustainable, well-constructed CSGs.

On its own, development of large scale CSGs is insufficient to meet Minn. Stat. 216B.1641. The CSG program must also benefit the public interest. In order to do so, CSGs must be built well, and must advantage Minnesota's economy. This necessitates a \$.15/kWh rate.

2. To Meet The Legislative Requirements, The Adder Must Be A 3 Cent Boost, Include A 2.75% Escalation Floor That Otherwise Tracks With The Utility's Energy Rate, And Be Derived From An Uncapped Pool Of Funds.

Our proposed adder is a package of three components that get the rate up to **\$.15/kWh levelized**.¹⁶ The first portion of the adder we propose is an **additional 3 cent base rate** that could be added to the VOS. This would bring the rate from 9.4 cents to 12.4 cents. This 12.4 cents, when levelized over the course of a 25 year contract, boosts the rate to the 15 cent minimum.

¹⁵ See Minn. Stat. § 216B.1641 (e)(4).

¹⁶ See *Approval Order*, *supra* note 1 at 4.

Our second recommendation is to have a **2.75% interest rate**, which is already incorporated into the VOS methodology via the CPI, act as an **escalation rate floor**.¹⁷ The rate would **otherwise track utility general energy rate increases**, like the ARR does.¹⁸

This approach prevents general electricity rates from outpacing PV generated prices, ensuring the value of the energy produced is not less than the energy purchased. It also provides enough certainty for financing and subscriptions, which is critical to receiving outside investment capital. By blending the two escalation rates together with a rate floor, it combines the interests of those organizations that wanted the ARR as the interim rate with those that proposed the CSG rate at the hearing on August 7, 2014.

The final characteristic of our proposed adder is that it must come from a **pool that doesn't create a capped program**. Not only is this an advantage from a consumer and installer perspective, but it is also required by law. According to Minn. Stat. 216B.1641, "There shall be no limitation on the number or cumulative generating capacity of community solar garden facilities other than the limitations imposed under section 216B.164 subdivision 4c, or other limitations provided in law or regulations."¹⁹ Any capped pool of funds would run up against this statute, because it would result in a practical limitation on CSG development. In order to abide by the law and to ensure unimpeded CSG growth, the adder must come from an uncapped pool.

3. The Adder Could Come From The Fuel Clause Adjustment Charge.

As far as where the pool of money could come from to pay for the adder, it makes the most sense to pull it from the Fuel Clause Adjustment for three reasons. First, the Fuel Clause Adjustment suits both the public's and installers' needs, because the fund is legally and practically uncapped. Next, the Fuel Clause Adjustment Charge currently has a lot of financial volatility, because it is filled with fuels that are difficult to estimate accurately. But adding more solar to the mix could create a hedge against the fossil fuel costs, allowing for better utility planning while reducing consumer risk. Finally, the ARR already pulls from the Fuel Clause Adjustment Charge and staying consistent would reduce ratepayer confusion.²⁰ When looking at the other available options, the public benefits the most if the money for the adder is pulled from the Fuel Clause Adjustment Charge.

¹⁷ See Minnesota Value of Solar: Methodology, *Clean Power Research*, at 7 (1/31/2014).

¹⁸ See Appendix.

¹⁹ Minn. Stat. § 216B.1641.

²⁰ See *Approval Order*, *supra* note 1 at 18.

Sincerely,

Lynn Hinkle

Policy Director

Minnesota Solar Energy Industries Association - MnSEIA

lhinkle@mnseia.org

612-310-4742

APPENDIX

MN PUC adopts the escalated VOS with 2.75% Escalator Floor and \$.03 Adder

Reasonably Financeable

Years	1MW Production Degrading 0.5%	VOS* 2.75%	Adder \$/KWh Fixed - 25yr	Rate Used on Bills VOS + Adder
1	1,250,000	\$0.0940	\$0.0292	\$0.1232
2	1,243,750	\$0.0966	\$0.0292	\$0.1258
3	1,237,531	\$0.0992	\$0.0292	\$0.1284
4	1,231,344	\$0.1020	\$0.0292	\$0.1312
5	1,225,187	\$0.1048	\$0.0292	\$0.1340
6	1,219,061	\$0.1077	\$0.0292	\$0.1369
7	1,212,966	\$0.1106	\$0.0292	\$0.1398
8	1,206,901	\$0.1137	\$0.0292	\$0.1429
9	1,200,866	\$0.1168	\$0.0292	\$0.1460
10	1,194,862	\$0.1200	\$0.0292	\$0.1492
11	1,188,888	\$0.1233	\$0.0292	\$0.1525
12	1,182,943	\$0.1267	\$0.0292	\$0.1559
13	1,177,029	\$0.1302	\$0.0292	\$0.1594
14	1,171,143	\$0.1337	\$0.0292	\$0.1629
15	1,165,288	\$0.1374	\$0.0292	\$0.1666
16	1,159,461	\$0.1412	\$0.0292	\$0.1704
17	1,153,664	\$0.1451	\$0.0292	\$0.1743
18	1,147,896	\$0.1491	\$0.0292	\$0.1783
19	1,142,156	\$0.1532	\$0.0292	\$0.1824
20	1,136,445	\$0.1574	\$0.0292	\$0.1866
21	1,130,763	\$0.1617	\$0.0292	\$0.1909
22	1,125,109	\$0.1662	\$0.0292	\$0.1954
23	1,119,484	\$0.1707	\$0.0292	\$0.1999
24	1,113,886	\$0.1754	\$0.0292	\$0.2046
25	1,108,317	\$0.1803	\$0.0292	\$0.2095

AVG Rate	\$0.1619
Discount Factor	6.5100%
Net Present Value	\$1.8379
Levelized Rate	\$0.1508

Levelized Calculation

Reasonably Financeable.

Years	1MW Production Degrading 0.5%	Levelized Rate Calc 0.00%	CSG Value
1	1,250,000	\$0.1508	\$188,516
2	1,243,750	\$0.1508	\$187,574
3	1,237,531	\$0.1508	\$186,636
4	1,231,344	\$0.1508	\$185,703
5	1,225,187	\$0.1508	\$184,774
6	1,219,061	\$0.1508	\$183,850
7	1,212,966	\$0.1508	\$182,931
8	1,206,901	\$0.1508	\$182,017
9	1,200,866	\$0.1508	\$181,106
10	1,194,862	\$0.1508	\$180,201
11	1,188,888	\$0.1508	\$179,300
12	1,182,943	\$0.1508	\$178,403
13	1,177,029	\$0.1508	\$177,511
14	1,171,143	\$0.1508	\$176,624
15	1,165,288	\$0.1508	\$175,741
16	1,159,461	\$0.1508	\$174,862
17	1,153,664	\$0.1508	\$173,988
18	1,147,896	\$0.1508	\$173,118
19	1,142,156	\$0.1508	\$172,252
20	1,136,445	\$0.1508	\$171,391
21	1,130,763	\$0.1508	\$170,534
22	1,125,109	\$0.1508	\$169,681
23	1,119,484	\$0.1508	\$168,833
24	1,113,886	\$0.1508	\$167,989
25	1,108,317	\$0.1508	\$167,149

Total Value: \$4,440,684

