

Staff Briefing Papers

Meeting Date	January 25, 2018	Agenda Item # *5
Company	Northern States Power, dba Xcel Energy	
Docket No.	E002/M-17-695	
	In the Matter of the Petition of Northern States Power Company for Approval of Revisions to the Renewable*Connect Pilot Program	
Issues	Should the Commission approve Xcel's Petition for approval of proposed revisions to the Renewable*Connect pilot program?	
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Relevant Documents

	Date
Xcel's Petition for Approval of Renewable*Connect Pilot Program in Docket No E002/M-15-985	November 12, 2015
Xcel's Supplemental to Petition including Approval for Renewable*Connect Government Pilot Program in Docket No E002/M-15-985	September 21, 2016
Order Approving Pilot Programs and Requiring Filings in Docket No E002/M-15-985	February 27, 2017
Xcel Petition for Approval of Revisions to the Renewable*Connect Pilot Program	September 21, 2017
PUC Notice of Comment Period	September 29, 2017
Xcel Comments	October 13, 2017
Department of Commerce Reply Comments	November 8, 2017
Office of Attorney General Reply Comments	November 8, 2017

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I. Statement of the Issues

Should the Commission approve Xcel's Petition for approval of proposed revisions to the Renewable*Connect pilot program?

II. Background

On November 12, 2015, Xcel Energy filed a Petition for approval to implement a Renewable*Connect pilot program in Docket No. 002/M-17-695. In its Petition, Xcel proposed to offer customers the option to source their energy from dedicated renewable sources that were previously approved by the Commission. Xcel proposed to dedicate up to 50 MW of wind from the Odell Wind Farm and 25 MW of solar from the North Star Solar Project to the initial tranche of Renewable*Connect.

Under its proposed program, Xcel's customers would be able subscribe to their desired level of energy, up to 100 percent of customer load or 10 percent of the available MWh associated with the initial tranche. As described in Xcel's proposed tariff:¹

A customer may elect to subscribe by: (i) purchasing a specified number of 100 kWh blocks; (ii) the customer's entire usage; or (iii) entire usage for a special event; provided, however, that *in no event shall the customer's total subscription exceed 10% of the total output of the resources used to supply the Renewable*Connect program.*

On December 22, 2015, at the request of the Department, the Commission suspended the comment period and on September 21, 2016, Xcel filed a Supplement to its Petition, modifying certain terms in the Renewable*Connect pilot, bringing forward Renewable*Connect Government, and requesting the Commission re-commence the comment period.

On February 27, 2017, the Commission Approved Xcel's Petition for the pilot tranche of Renewable*Connect. On September 21, 2017, Xcel filed a Petition for Approval of Revisions to the Renewable*Connect Pilot Program (Petition or Petition of Revisions). Among the proposed revisions was the removal of the requirement that customers may not subscribe to a portion that exceeds 10 percent of the energy of the Renewable*Connect pilot tranche.

III. Xcel's Petition for Approval of Revisions to the Renewable*Connect Pilot Program

On September 21, 2017 Xcel filed its Petition for Approval of Revisions to the Renewable*Connect Pilot Program (Petition). In its Petition, Xcel requested that the Commission approve: (A) the month-month and special event pricing compliance update; (B)

¹ Docket No E002/M-15-985, Xcel's Petition for Approval of Renewable*Connect Pilot Program, November 12, 2015, Attachment I, Section No. 5, Original Sheet No. 151, Terms and Conditions of Service, Item 1.

language to make clear the end of the subscriber's term; and (C) a modification to remove the 10 percent per-customer limit on subscription size.²

A. Pricing Update

As outlined in its initial Petition, Xcel committed to file updates to its Renewable*Connect Month-to-Month and special event rate annually. Xcel noted it was filing a pricing update prior to its first Annual Report and that it would file the pricing update annually on April 1 for approval, henceforth.³

The Company submitted Attachment A to fulfill the annual pricing update requirement for the Month-to-Month and special event rate. As detailed in Attachment A, the 2018 pricing update incorporates the resource cost, the capacity credit, and neutrality charge for the 2018 Month-to-Month and special event rates and included these in the 5 and 10-year term pricing for 2018. In addition, Xcel explained that the administration charge for 2018 was reduced 0.025 cents/kWh from the 2017 price to match the year-over-year reduction for the 5- and 10-year pricing schedules.⁴

B. Clarification to Prorated Term

In addition to the pricing update, Xcel also included two refinements to its tariff in its Petition. First, Xcel proposed a clarifying edit to its tariff to make clear that the end of the customer's term length does not extend beyond the term of the Renewable*Connect Pilot Program.⁵

In reviewing its tariff and Customer Agreement for the Renewable*Connect pilot, Xcel identified that the term length would benefit from clarification. Xcel stated it believed the tariff as written could lead to confusion about the term length for subscribers joining with a five- or ten-year Service Agreement. Since the pilot program ends in December 2026, Xcel proposed revisions to its tariff to reflect an end date of December 31, 2026.⁶

As outlined in Attachment B to its Petition, Xcel proposed the following Changes to the Renewable*Connect Pilot Program Rider in Section 5, Sheet 152:⁷

6. Xcel Energy may cancel this R*C Service and any Service Agreement applicable to the R*C Service on written order from the Commission based on good cause shown. Additionally, Xcel Energy may, upon reasonable notice to a Customer, cancel any Service Agreement applicable to the R*C Service to assure that the

² Xcel Petition for Approval of Revisions to the Renewable*Connect Pilot Program, September 21, 2017, p. 6.

³ *Id.*, p. 4.

⁴ *Id.*, Attachment A.

⁵ *Id.*, p. 4

⁶ *Id.*

⁷ *Id.*, p. 5.

Service Agreement does not extend beyond the term of this R*C Pilot Program.
The term of this R*C Pilot Program ends on December 31, 2026.

Further Xcel proposed a similar change to the Renewable*Connect Service Agreement in Section 7, Sheet 99:⁸

2. SUBSCRIPTION TERM: The Subscription Term under this Service Agreement shall begin on the first day of the next billing cycle for each account for the Premises of the Customer identified in this Service Agreement immediately following Xcel Energy counter-signing this Service Agreement (but not before January 1, 2017).

The Subscription Term shall continue until the earlier of the following (the "Termination Date"):

- A. The last day of a billing cycle following 30 days from the termination notice from customer;
- B. The last day of the 5-Year or 10-Year term where a 5-Year or 10-Year term is selected by the Customer;
- C. The last day of the Special Event, where the subscription is for a Special Event;
- or,
- D. The date the Customer ceases to receive service at the Premises without beginning to take service at another location in Xcel Energy's Minnesota service area.

E. The last day of the R*C Pilot Program, which is December 31, 2026.

C. Removal of 10 Percent Restriction

In the second tariff revision in its Petition, Xcel requested a modification to remove a term limiting available subscription sizes. As outlined in Attachment B to its Petition, Xcel proposed a change to reflect the removal of the 10 percent of tranche limit on subscription sizes. According to Xcel, when it first proposed this sizing limitation, the purpose was to ensure that the participation of large energy users did not effectively exclude the participation of small energy users, such as small businesses or Residential customers. Xcel stated that this restriction was an important safeguard for the public interest in assuring program access. According to Xcel, the initial expressions of customer interest indicated that the program would be fully subscribed prior to the contracting phase.⁹

In its Petition, Xcel stated that the Renewable*Connect Pilot program had attracted more than 1,900 Residential subscribers. However, Xcel explained that it proposed to remove the size restriction, because approximately one-third of the pilot tranche remained unsubscribed.¹⁰

According to Xcel, there are certain customers who are prepared to subscribe to a larger portion of the tranche, such as the City of Minneapolis, who is willing to subscribe to more

⁸ *Id.*

⁹ *Id.*

¹⁰ *Id.*, p. 5-6.

Renewable*Connect if it was made available to them. In the letter, included as Attachment C to Xcel’s Petition, the City described its desire to subscribe to an additional 50 to 60 million kWh of Renewable*Connect, which it is currently restricted from subscribing to due to the 10 percent restriction.¹¹

Xcel asserted that the original restriction has served its public interest purpose, since all customers have had an opportunity to subscribe. Because the purpose of the rule limiting each subscription to no more than 10 percent of the tranche size has been satisfied, Xcel claimed that it is no longer necessary to ensure all customers have an opportunity to access the pilot, and accordingly, proposed to remove that term from its tariff.¹² Xcel proposed the following change, with stricken language, to Paragraph 2, Section No. 5, Sheet No. 151 of it’s tariff:

2. A Customer may elect to subscribe by: (i) purchasing a specified number of 100 kWh blocks; (ii) the Customer’s entire Applicable Retail Electric Usage; or (iii) the Customer’s entire Retail Electric Usage for a special event; ~~provided, however, that in no event shall the customer’s total Subscription Level exceed 10% of the total expected average output of the available R*C Resources.~~

PUC Notice of Comment Period

On September 29, 2017, the Commission issued a Notice of Comment Period, which requested that Xcel provide more details on its current subscribers and customer demand for the Renewable*Connect pilot program.¹³

In Response to the Commission’s request, Xcel provided the following breakdown of its Renewable*Connect subscribers by customer class.¹⁴

Table 1 Renewable*Connect Subscribers				
Customer Class	# Subscribers	% Subscribers	Energy kWh	% kWh
Residential	1988	95.07%	13,377,426	12.08%
Small General	32	1.53%	460,337	0.42%
C&I	71	3.40%	96,872,824	87.50%
Total	2091	100.00%	110,710,587	100.00%

According to Xcel the Renewable*Connect Pilot Program has over 110 million kWh of active subscriptions from 1988 Residential, 32 Small General Service, and 71 large Commercial and Industrial (C&I) customers. Xcel also explained that the rate of subscription uptake has diminished over time and this reinforced Xcel’s conclusion that a rule limiting the maximum

¹¹ *Id.*, p. 6.

¹² *Id.*

¹³ PUC Notice of Comment Period, September 29, 2017.

¹⁴ Xcel Comments, October 13, 2017, Table 1, p. 2.

subscription size is no longer necessary to enable all customers an opportunity to participate in the pilot.¹⁵

Xcel also stated that there are three C&I customers who have shown a commitment to the pilot tranche and have subscribed to the maximum amount of energy allowed by the 10 percent per customer limit. Of these three customers, one has expressed interest in a subscription amount above the 10 percent per customer limit.¹⁶ According to Xcel, the City of Minneapolis has indicated a desire to subscribe to an additional 50 to 60 million kWh of the Renewable*Connect pilot if it were made available to them. Increasing the City’s subscription level by an additional 60 million kWh would result in about a 62 percent increase (from 96.8 million kWh to 156.8 million kWh) for the energy subscribed by the C&I customer class. Overall, total program subscriptions would then be about 170.7 million kWh, and Xcel stated it would still have about 7.5 million kWh available for other possible customer subscriptions. Table 2 below provides a breakdown of Xcel’s Renewable*Connect subscribers by customer class with 60 million additional kWh allocated to the C&I class.¹⁷

Table 2 -Renewable*Connect Subscribers with 60 Million additional kWh for Mpls				
Customer Class	# Subscribers	% Subscribers	Energy kWh	% kWh
Residential	1988	95.07%	13,377,426	7.84%
Small General	32	1.53%	460,337	0.27%
C&I	71	3.40%	156,872,824	91.89%
Total	2091	100.00%	170,710,587	100.00%

IV. The OAG Comments

The Office of the Attorney General – Residential Utilities and Antitrust Division (OAG) did not comment on either the pricing update or tariff clarification of the prorated term in Xcel’s Petition for Revisions. The OAG also stated that it does not take a position on whether the ten percent cap should be lifted for the initial tranche of the Renewable*Connect pilot program.¹⁸ However, the OAG recommended that, if the Commission decides to remove the ten percent cap on program subscriptions, it should modify Xcel’s proposed tariff changes, so that the cap is removed only for the first tranche of the program, and assure that the 10 percent cap is preserved for any future Renewable*Connect program expansion.¹⁹

While it may be reasonable to remove the ten percent limitation on the first tranche, the OAG argued it would not be reasonable to remove the limitation for the entire pilot program at this

¹⁵ *Id.*, pp. 2-3.

¹⁶ Xcel stated also that another customer, who is committed to the pilot tranche at less than the maximum allowable subscription size, has indicated an interest in a larger subscription if the 10 percent per customer limit was removed. *Id.* p. 2.

¹⁷ *Id.* p. 3.

¹⁸ Office of Attorney General Reply Comments, p. 5.

¹⁹ *Id.* p. 1.

time.²⁰ The OAG warned that, if Xcel expands the program using incremental resources, and once again overestimates program demand, then general ratepayers could be harmed without the Commission ensuring that they are protected from the increased costs of the expanded program.²¹ According to the OAG, the ten percent limit is an important restriction that prevents large customers from obtaining excessive benefits and ending their contribution to system fuel costs.²²

The OAG advised that the Commission should carefully review the Renewable*Connect program because it provides a useful example of the potential perils that may result from emerging services enabled by new technologies and customer preferences and the potential risks and cost to general ratepayers that may result from such services.²³

As explained by the OAG, the Renewable*Connect program allows Xcel to set aside renewable resources, and offer them to customers as a replacement for the system fuel cost. Therefore, Renewable*Connect customers theoretically pay for the cost of the renewable resources themselves, in addition to a neutrality adjustments, and no longer pay for system fuel costs.²⁴

According to the OAG, the Renewable*Connect Pilot program was designed so that General ratepayers would not be unduly harmed by the unsubscribed Renewable*Connect energy, because the resources for the first tranche were carved off of Commission-approved system resources that would have been collected through the fuel clause anyway, if the Renewable*Connect program had not been approved.²⁵

The OAG explained further that, beyond Xcel's basic electricity service, Renewable*Connect offers customers at least two value-added services: (1) customers gain access to renewable energy because Xcel retires the RECs on behalf of the customer; and (2), customers have the opportunity to hedge against the cost of fuel by signing 5- or 10-year contracts.²⁶

The OAG noted that in Xcel's Petition for Approval of Revisions, Xcel explained that the program asserted that either Xcel overestimated demand for the program and selected a tranche that was too large or it selected a large tranche knowing that it could request that the 10 percent cap could be removed in the future.²⁷

²⁰ *Id.* p. 6.

²¹ *Id.* p. 3.

²² *Id.* p. 6.

²³ *Id.* p. 1.

²⁴ *Id.* p. 2.

²⁵ *Id.* p. 3.

²⁶ *Id.* p. 2.

²⁷ *Id.* and fn 6. The OAG also stated that Xcel did not provide marketing information for the Renewable*Connect Pilot in its Petition. Therefore, the Commission cannot be assured that the decline in new subscriptions, particularly residential subscriptions, was not related to Xcel's marketing efforts, and neither that the Company's efforts at marketing the program to residential customers and large

If Xcel had procured incremental resources for the first tranche, rather than using already-approved system resources, the OAG stated that the general ratepayers would be paying for 36 percent of the program, and Xcel would have no financial risk for creating a new service offering that was not as successful as anticipated.²⁸

The OAG argued that the only reason that general ratepayers are not being harmed is because of the source of the resources used for the first tranche are not incremental. The OAG expressed its concern for the future of the Renewable*Connect program because Xcel has made clear that its vision for the Renewable*Connect program includes an eventual expansion of the program based on resources that are procured incrementally.²⁹

The OAG stated that the 10 percent cap is a protection for general ratepayers, because it limits the harm that can be caused by a single customer exiting the program after signing a long-term contract and it places limits on the extent to which large customers can end their contribution to system fuel costs through hedging.³⁰

The OAG stated it takes no position at this time on whether customers should be permitted to increase subscriptions for the first tranche, because the Commission has already approved this program and set aside resources for the initial tranche. However, the OAG recommended that the Commission should not modify the tariff as proposed by Xcel. If the Commission decides to remove the 10 percent cap on Renewable*Connect subscriptions, the OAG recommended that the decision should be limited to the first tranche only.³¹

The OAG argued that the language incorporating the 10 percent cap should remain in the Renewable*Connect tariff and be the starting point for any expansion of the program. Instead of the tariff change proposed by Xcel, the OAG recommended that, if the Commission seeks to modify the ten percent cap, it should insert this language following Paragraph 2, Section No. 5, Sheet No. 151 of Xcel's tariff:³²

2a. Limited Exception to Subscription Level. Customers who subscribe to the first tranche of resources approved for the Renewable*Connect Pilot Program may purchase a total Subscription Level from the first tranche without limitation.

commercial & industrial customers were comparable. See fn 5.

²⁸ *Id.* p. 4.

²⁹ *Id.* p. 3.

³⁰ *Id.* pp. 4-5.

³¹ *Id.*

³² *Id.* p. 6.

V. The Department

The Department recommended that the Commission approve Xcel's Petition for Approval of Revisions. The Department reviewed the Petition for compliance and concluded that the Petition is complete.³³

A. Pricing Update

In the Petition, the Department noted that Xcel stated that pricing terms of the Renewable*Connect tariff, such as the neutrality charge and the price of the Month-To-Month or Single Event services changed. The Department noted further that, in response to Department Information Request No. 1, Xcel provided the calculation of the new tariff pricing terms. The Department stated it had reviewed Xcel's calculations and determined that the changes were reasonable due to updated inputs such as capacity factors. Based upon this review, the Department recommended that the Commission approve the Month-to-Month and special event pricing compliance update.³⁴

B. Clarification to Prorated Term

The Department stated it had reviewed Xcel's proposed changes to clarify the term of the Renewable*Connect program and concluded that they do not violate Minnesota Statutes. In addition, the Department concluded the changes make clear to customers that subscriptions do not last longer than the pilot program. Therefore, the Department recommended that the Commission approve the changes to clarify the term of the Renewable*Connect program.³⁵

C. Removal of 10 Percent Restriction

The Department stated it agreed with Xcel that the sizing limitation ensured that, under a first-come, first-served allocation approach, the participation of a few large energy users did not effectively exclude the participation of other customers during the early stages of enrollment. The Department noted that all customers had an opportunity to subscribe and Xcel reported that the pilot had attracted nearly 2,000 residential customers. According to the Department, the variety of customers' participation is an important part of a pilot, which has been achieved by Xcel.³⁶

The Department stated its agreement with Xcel that the size restriction has fulfilled its purpose and it is now reasonable to accommodate customers who are prepared to subscribe to a larger

³³ Department of Commerce Reply Comments, pp. 3-4.

³⁴ *Id.*, p. 4.

³⁵ *Id.* pp. 3-4.

³⁶ *Id.*

portion of the initial tranche. Therefore, the Department recommended that the Commission approve Xcel's proposal to remove the participation limit.³⁷

VI. Staff Analysis

Staff notes that neither the Department nor the OAG recommended that the Commission not approve Xcel's Petition for Approval of Revisions to the Renewable Connect Pilot program. The Department recommended approval of Xcel's Pricing Update, tariff Clarification of the prorated term and the removal of the 10 percent restriction.

The OAG did not comment on either the pricing update or the clarification of the term in Xcel's Petition for Approval of Revisions. The OAG also stated it did not take a position on whether the ten percent cap should be lifted for the initial tranche of the Renewable*Connect pilot program. The OAG recommended, however, that if the Commission approved the 10 percent cap, it should modify Xcel's proposed tariff changes, so that the cap is removed only for the first tranche of the program, and assure that the 10 percent cap is preserved for any future Renewable*Connect program expansion. Therefore, the only contested decision before the Commission appears to be whether to approve Xcel's or the OAG's tariff changes to reflect the removal of the 10 percent participation limit.

Staff agrees with the OAG that it appears Xcel overestimated demand for its Renewable*Connect program by selecting an initial tranche that was too large. Staff also notes that, with the removal of the 10 percent cap in the Initial tranche and the City of MPLS additional commitment to 60 million kWh in the Renewable*Connect program, Large C&I customers will be subscribed to almost 92% of the total kWh dedicated to the initial tranche of the program. It appears reasonable to assume that the result of Xcel's proposed tariff modification would likely allow a similar breakdown by customer class for customers subscribing to future tranches of the Renewable*Connect program. Staff agrees with the OAG that this may be a concern if future tranches are based on renewable resources that are procured incrementally.

Staff believes it is not necessary for the Commission to make a determination on the removal of the 10 percent per customer restriction for the entire Renewable*Connect program at this time and that the OAG's proposed tariff limiting the 10 percent per customer restriction to the initial tranche is reasonable. If Xcel wishes to remove the 10 percent restriction for a future tranche and expansion of the Renewable*Connect program, it can make the proposal at the time of its filing. The Commission can then determine the reasonableness of a per customer restriction, or for not having a per customer restriction, together with the other terms and conditions of a proposed future tranche, after Xcel has made such a proposal.

VII. Decision Options

A. Pricing Update

1. Approve Xcel's month-to month and special event pricing compliance update.
2. Do not approve Xcel's month-to month and special event pricing compliance update.

B. Clarification of Prorated Term

1. Approve Xcel's tariff changes and changes to its subscription agreement to clarify the term of the Renewable*Connect program.
2. Do not approve Xcel's tariff changes and changes to its subscription agreement to clarify the term of the Renewable*Connect program.

C. Removal of 10 Percent Restriction

1. Approve the Xcel's proposal to remove the participation limit and Xcel's proposed tariff changes to Paragraph 2, Section No. 5, Sheet No. 151:
 2. A Customer may elect to subscribe by: (i) purchasing a specified number of 100 kWh blocks; (ii) the Customer's entire Applicable Retail Electric Usage; or (iii) the Customer's entire Retail Electric Usage for a special event; ~~provided, however, that in no event shall the customer's total Subscription Level exceed 10% of the total expected average output of the available R*C Resources.~~
2. Approve the Xcel's proposal to remove the participation limit, but do not approve Xcel's proposed tariff changes to reflect the removal of the participation limit, and instead approve the OAG's proposed tariff changes to Paragraph 2, Section No. 5, Sheet No. 151:
 2. A Customer may elect to subscribe by: (i) purchasing a specified number of 100 kWh blocks; (ii) the Customer's entire Applicable Retail Electric Usage; or (iii) the Customer's entire Retail Electric Usage for a special event; provided, however, that in no event shall the customer's total Subscription Level exceed 10% of the total expected average output of the available R*C Resources.
 - 2a. Limited Exception to Subscription Level. Customers who subscribe to the first tranche of resources approved for the Renewable*Connect Pilot Program may purchase a total Subscription Level from the first tranche without limitation.
3. Do not approve the Xcel's proposal to remove the participation limit.