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March 2, 2015

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

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

Dear Mr. Wolf:

The Minnesota Department of Commerce, Division of Energy Resources (Department) is filing these *Reply 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

REPLY 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 *Reply Comments* on community solar garden (CSG) financing and the possibility of an “adder.” The Department submitted *Comments* in response to the Minnesota Public Utilities Commission’s (Commission) *Order* directing 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 reviewed other parties’ comments, and submits the following *Reply Comments*.

II. DEPARTMENT ANALYSIS

A. *THE COMMISSION SHOULD POSTPONE NEW RATE DESIGN DECISIONS UNTIL 2016*

The Department continues to recommend a transition for new CSGs to a value of solar (VOS)-based rate(s) in the long term. However, the Department recommends that the Commission postpone a decision on an adder(s) design until the Commission has information on the market response to the current CSG rates and program rules. Based on the expected timing of the application process and of the updated VOS rate, the Department concludes that it is reasonable for the Commission to revisit the VOS-based rate(s) design question in 2016.

Xcel opened the Solar*Rewards Community application system on December 12, 2014. At the time of these *Reply Comments*, Xcel has reported receiving 437 applications with a

cumulative total of 429 MWs of capacity; 89 applications have been deemed complete and have advanced to engineering review.¹

In its February 13, 2015 *Order*, the Commission ordered Xcel to file monthly updates on the status of the initial CSG applications received. The status updates will likely not contain information on the types of customer classes subscribing to the CSGs, as developers are not expected to submit subscriber account information to Xcel until the CSGs near operation.

Xcel's CSG application filings to date show that many of the proposed CSGs are at the maximum 1 MW capacity size, and recent news articles have highlighted large, "anchor tenant" subscriber agreements from corporate and public sector customers. If these early indications hold, the application and subscriber data may show that the current rates are financeable for large gardens that take advantage of economies of scale with installation costs, and for gardens with a few large subscribers that reduce the garden's overall subscription management costs. However, actual CSG cost, completion rate, and subscriber information will not be available in the near future.

The Department also notes that Minnesota Statute 216B.1611 Subd. 3a requires each electric utility to request the following information from renewable energy distributed generation (DG) interconnection applicants:

Beginning July 1, 2014, each electric utility shall request an applicant for interconnection of distributed renewable energy generation to provide the following information, in a format prescribed by the commissioner:²

1. the nameplate capacity of the facility in the application;
2. the preincentive installed cost and cost components of the generation system at the facility;
3. the energy source of the facility; and
4. the zip code in which the facility is to be located.

Xcel and other electric utilities are required to include this information in their annual DG interconnection reports on March 1st. Data on any 2015 CSG interconnected projects will be part of Xcel's March 1, 2016 DG interconnection report.

In its September 17, 2014 *Order* the Commission directed Xcel to file an annual updated VOS rate calculation by March 1. By March 1, 2016, parties are expected to have both the 2015 project capacity and costs data along with an updated 2016 VOS rate to consider in offering comments on any adder(s) used with the VOS rate.

With this information, combined with subscription pricing data from marketing materials, the Department concludes that parties will be in a better position to inform the Commission on

¹ Xcel Energy. Solar*Rewards Community. Accessed March 2 2015, http://www.xcelenergy.com/Energy_Solutions/Business_Solutions/Renewable_Solutions/SolarRewards_Community-MN.

² "Commissioner" refers to the Commissioner of the Department of Commerce. These reports are filed annually with the most recent reports filed in E999/PR-14-10.

the design and level of an appropriate adder(s) used in conjunction with the VOS rate specific to the Minnesota market.

To assist an adder design process, the Department recommends that Xcel include information on the numbers of subscribers by customer class for which Xcel has received account information in the Company's monthly update on the CSG applications. Reporting this information is consistent with the permitted public reporting on community solar gardens listed in Xcel's Section 9 Cogeneration tariff.³

B. ADDITIONAL ADDER DESIGN CONSIDERATIONS

Though the Department recommends that the Commission postpone a VOS plus adder rate decision until 2016, the Department offers the following recommendations in response to questions in the Commission's October 9, 2014 *Notice Of Reply Comment Period*:

1. *Adder Escalation.* For administrative simplicity, any adder used with the VOS rate should be a flat rate, not an adder that is escalated annually. The VOS rate already changes with the annual rate of inflation, and in previous comments the Department indicated that it is open to fixing the VOS escalation rate to the inflation rate used in the VOS calculation for purposes of providing rate certainty for CSG financing. The Department envisions that different project vintage years would have different adder levels as the solar cost market changes. It would be administratively complex with little design benefit to escalate a given project vintage year's adder and track the escalation with other vintage year adders.
2. *Potential Adder Design Methods.* At this time the Department does not endorse any of the adder design methods listed in the Reply Comment Notice (i.e. Declining Incentive Schedule, Competitive Procurement, and Competitive Upfront Payment to Garden Operator). The Department cautions that the competitive procurement and upfront payments to garden operators may present difficulties if Xcel decides to offer its own solar gardens. While utilities should be able to add utility-owned gardens to their systems, an adder competitive process would need to be designed to prevent a conflict of interest between Xcel and third-party solar garden developers.
3. *Different Adders by Project Size and Subscriber Classes.* The Department expects that CSG financing requirements, and thus the financeable rate, will vary in part by the CSG project size and the mix of subscriber classes. The Commission has already acknowledged probable differences in CSG project sizes by designing a renewable energy credit (REC) price of \$0.02 per kWh for CSGs larger than 250 kW, and \$0.03 per kWh for CSGs 250 kW or less in size. However, without information on actual CSG project costs by size and mixes of

³ Xcel Energy's Section 9 Cogeneration Tariff, Original Sheet No. 96, subsection b. *Permitted Public Reporting.*

subscribers by customer class, the Department does not recommend further adder designs by size and subscriber class at this time.

4. *Renewable Development Fund (RDF) is not an appropriate adder funding source.* The RDF is designed to fund projects that identify and develop new or emerging renewable energy sources.⁴ As the Legislature created CSGs in a separate statute that placed no cap on the program, the Department concludes the Legislature did not intend RDF funds to be used with the CSG program. Funding a CSG rate adder through the RDF would make eligible emerging technology projects compete with a growing solar industry that continues on the path to being a cost-competitive resource. Therefore, the Department does not recommend that the RDF be used to fund any adder(s) used in conjunction with a VOS rate.

III. DEPARTMENT RECOMMENDATIONS

The Department recommends that the Commission:

1. Postpone a decision on a VOS and adder(s) rate(s) for CSGs until 2016; and
2. Direct Xcel to include information on the numbers of subscribers by customer class for which Xcel has received account information in the Company's monthly update on the CSG applications.

/lt

⁴ Xcel Energy (Accessed November 24, 2014). *Renewable Development Fund History*. http://www.xcelenergy.com/Environment/Renewable_Energy/Renewable_Energy_Grants/Renewable_Development_Fund_History.

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
Reply Comments**

Docket No. E002/M-13-867

Dated this 2nd day of March 2015

/s/Sharon Ferguson

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