

December 10, 2025

VIA ELECTRONIC FILING

Sasha Bergman, Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, MN 55101-2147

Re: In the Matter of the Petition of Northern States Power Company for Approval of Capacity*Connect, A Distributed Capacity Procurement Program

Dear Ms. Bergman,

Clean Energy Economy Minnesota (CEEM) respectfully submits these reply comments for PUC Docket Number: E-002/M-25-378. In the Matter of the Petition of Northern States Power Company for Approval of Capacity*Connect, A Distributed Capacity Procurement Program.

Our mission at CEEM is to provide educational leadership, collaboration, and policy analysis that accelerates clean energy market growth and smart energy policies. We work to support and expand clean energy jobs and the economic opportunities provided by clean, reliable, and affordable energy on behalf of all Minnesotans.

Please feel free to contact us with any questions that you may have. We hope that these initial comments below provide you with useful insights.

Regards,



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STATE OF MINNESOTA
BEFORE THE
PUBLIC UTILITIES COMMISSION

Katie Sieben
Joseph K. Sullivan
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Audrey C. Partridge
John Tuma

Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of the Petition of Northern
States Power Company for Approval of
Capacity*Connect, A Distributed Capacity
Procurement Program

Docket No. E-002/M-25-378

INITIAL COMMENTS

I. Introduction

Thank you for the opportunity to submit comments on this matter. Clean Energy Economy Minnesota (“CEEM”) represents more than 70 member companies across Minnesota, who stand ready to play their part in adding desperately needed energy resources to our distribution grid and we recognize that Capacity*Connect presents a pathway to make that happen. However, as with any new program, it’s important that all parties involved recognize the growing pains and learning curve that can come with such a significant new endeavor.

When Xcel Energy (“Xcel”) first proposed a new Distributed Capacity Procurement (“DCP”) in their August 2024 Integrated Resource Plan filing, several of our members were excited and open minded to learning more. As the concept has evolved into its current form as Capacity*Connect, we remain hopeful that it can serve as a first step toward a necessary shift toward a more modern distribution grid that provides more flexible interconnection options and greater opportunity for local clean energy businesses.

II. Background

On October 3, 2025, Xcel filed its initial proposal for a DCP program, referred to by Xcel as Capacity*Connect (“C*C”). Xcel described the vision for C*C as “provid[ing] capacity and energy benefits for customers without the need for potentially time-consuming and costly interconnection, upgrades, and investment in the bulk system, while bringing more locally stacked benefits through optimization of the distribution system.”

Xcel's C*C filing presents an innovative and forward-looking vision for the evolution of the distribution system. The Company rightly recognizes that Distributed Energy Resources ("DERs"), when orchestrated through a robust Distributed Energy Resource Management System ("DERMS"), can meaningfully enhance grid performance by reducing time-to-power, improving asset utilization, and deferring or avoiding traditional transmission and distribution ("T&D") investments. The filing reflects a progressive understanding of how DERs can be transformed from isolated assets into integral, system-level resources that advance both reliability and affordability.

III. Topic 1: Should the Commission approve, modify, or deny Xcel's proposal for Capacity*Connect Phase 2?

Overall, we are supportive of Phase 2 of the Capacity*Connect Program. However, while Xcel's overarching vision is commendable, several program design elements warrant closer examination to ensure that implementation aligns with the stated objectives of efficiency and system value.¹ Specifically, the proposal envisions C*C assets that are: (a) developed by a single Implementation Partner; (b) owned and operated solely by Xcel; and (c) located based on Xcel's hosting capacity maps. Taken together, these conditions may prove sub-optimal—potentially exposing ratepayers to unnecessary risk, constraining siting and design innovation, and diminishing the system-wide benefits that the Company seeks to deliver.

a. Program Design, Implementation, and Operations

i. Phase 2 of the C*C program should allow for third-party development, even if the utility ends up owning the BESS facility once the project has been sufficiently derisked.

While Xcel is correct that components of its proposed C*C program are new to the Company, none of the elements listed in the Implementation Partner's scope are themselves inherently novel. They represent standard project-execution values and services that independent developers routinely deliver across Minnesota. Numerous third-party developers have built and refined these capabilities through more than a decade of participation in Minnesota's community-solar program and the state's robust behind-the-meter generation market. Xcel and Sparkfund have not developed these capabilities and should not be given carte blanche approval to practice at ratepayer expense. Across the country when implementing front-of-meter DERs, utilities and regulatory commissions have chosen the third-party developer model. While we note Xcel's initial attempt at a partial

¹Docket No. 25-378, Petition, at page 2 (quoted above).

analysis on the potential cost-benefit tradeoffs between a utility-owned and managed DCP model and alternative models for allowing participation of customer-owned and third party-owned resources, the current proposal does not fully address the risks inherent with a program with assets only owned and developed by Xcel.

Competition in the project-development environment is critical to insulating ratepayers from development risk. Successful project execution depends on numerous factors outside of Xcel’s direct control. For example, effective development frequently requires community engagement and consensus-building, as well as legal and technical coordination with the authority having jurisdiction (“AHJ”). This is especially true for battery energy storage systems (“BESS”), which present unique safety considerations that often demand early and ongoing collaboration with local fire departments and other safety officials. Projects that fail to navigate these processes—many of which rely on local relationships and a personal touch—may be denied approval by the AHJ regardless of their technical ability to interconnect the project.²

Beyond execution risk, project development also entails substantial financial exposure. Community engagement, engineering, permitting, and legal work all require upfront investment, whether performed internally or through third-party firms. Developers commonly secure site control through lease-option agreements, obligating them to multi-year payments to landowners even if a project does not proceed. Third-party developers often engage in the most difficult aspects of project development: aggregate projects into portfolio financing, complete construction and procurement, navigate tariffs and federal tax requirements including new FEOC restrictions and more. Collectively, these expenditures represent capital that developers must carry, along with the associated financing costs. A competitive development environment ensures that these risks and carrying costs are borne by private market participants best positioned to manage them, rather than transferred directly or indirectly to ratepayers.

As in any competitive market, some projects or developers inevitably fail, whether due to external factors or internal management challenges. For example, over the first 10 years of the CSG program the average project cancellation (a/k/a failure) rate has far exceeded 30 percent,³ so it is not unreasonable to anticipate there will be many failed

² Xcel’s C&C petition notes there will be a lease payment (and thus agreement) for each BESS site, so BESS will be the primary use of that lease footprint, triggering the need for a use permit from the relevant city or county level of government.

³ This conservative estimate is based on CSG projects that advanced past the interconnection application stage (and thus entered the Xcel interconnection queue) but then failed to achieve

projects under the C*C program. When this naturally occurs, it may represent a significant financial loss to the developer (in this case, Xcel or Sparkfund) and leave behind partially stranded assets and potentially complicated legal and financial entanglements including disappointed contractors, potential mechanics and supplier liens, insurance and subrogation claims, abandonment and decommissioning processes, and allocation of the financial loss among the parties involved. In a competitive environment, such failures are diffuse and self-contained. By contrast, when execution authority is concentrated in a single utility or Implementation Partner, those risks become consolidated, creating the possibility that a single point of failure could jeopardize the entire C*C program.⁴

None of these concerns should preclude Xcel from retaining an Implementation Partner to serve as a program administrator. A well-qualified administrator could play a valuable role in supporting Xcel's broader portfolio management objectives. Any implementation partner should excel at running a procurement process by which Xcel can procure projects that have reached a set level of maturity that insulates ratepayers from many of the early-stage development risks. However, the administrative function should be distinct from the competitive development process itself. Maintaining open participation by qualified third-party developers would preserve competition on cost and quality, distribute project-level development and permitting risk, and more effectively align the program's execution framework with CEEM's longstanding preference for market-based outcomes that protect ratepayers.

For these reasons, the Commission should consider and adopt a Phase 2 approach that allows Xcel to take ownership of the BESS project at specific project milestones such as Notice to Proceed ("NTP") or Commercial Operation Date ("COD"). Under any combination of such a "build-own-transfer" model, Xcel would still be the long-time asset owner, while also enabling the program to lean on the experience of the robust DER development community Minnesota has gained over the years of active participation in other DER programs.

commercial operation, typically because they became unbuildable and were cancelled by the applicant to recover the project's program deposit.

⁴ If the Order in this docket allocates this development risk to Xcel or Sparkfund (rather than third-party developers), then another relevant question will become whether the utility can recover from ratepayers its sunk cost associated with C*C BESS projects that failed to advance to commercial operation.

ii. The C*C program should allow for a broader suite of commercial arrangements, including build-own-transfer, tolling agreements, capacity right agreements, or other financial arrangements.

In addition to opening project development to third-party developers, it is also possible to allow third-party ownership of these BESS assets while still allowing utility control, to enable more competition and lower costs on the development side. DERMS would allow Xcel to fully utilize third-party owned assets to be deployed in ways that maximize grid benefits. However, if the Commission finds that Phase 2 should include only utility-owned systems, the lessons learned from Phase 2 should allow Xcel the experience to successfully manage third-party owned systems in future Phase 3.

An open, competitive development model has benefits for CEEM's membership and Xcel's large commercial and industrial (C&I) customers that are essential to Minnesota's energy system adoption and are well-positioned to contribute meaningfully to Xcel's C*C initiative. These customers value predictable, reliable service, and a well-structured C*C can support those goals by reducing peak system stress and helping avoid or defer significant grid investments, benefits that should moderate long-term rate pressure. A competitive development model would also create space for business-aligned solutions beyond standalone storage, including solar, thermal systems, demand management technologies, and process efficiency improvements that offer real capacity value. Ensuring that customer-hosted solutions can participate easily, and that contracting and eligibility requirements remain transparent and straightforward, will help drive higher participation and lower system costs.

C&I customers would also gain from increased system visibility and data access. Clear information on where distribution capacity constraints exist, how solutions are prioritized, and how avoided costs are calculated will support better operational and capital planning for large users. Regular hosting and congestion updates, along with clear pathways for site-specific inquiries, will strengthen operational alignment between utilities and major customers.

iii. Cost for Charging BESS Systems

The current proposal does not contemplate charging cost structures for BESS systems. According to Xcel during the November 18, 2025, workshop, Xcel plans to pay for the energy required to charge the BESS through LMPs from MISO, however, they intend to avoid any demand or delivery charges for using the distribution system. This may potentially be justified by charging the BESS overnight during times of lowest demand. However, if this is how Xcel treats FTM interconnected BESS projects built under Phase 2, that same

principle should apply to any future third-party owned BESS system connected to Xcel's distribution system under the same terms. If not, then any company-owned BESS must also pay demand charges for use of the distribution system as similar systems must do in other jurisdictions.

b. Delivery of System Benefits

Xcel's current proposal contemplates using C*C projects as bulk system assets. There is not, however, contemplation of how these C*C BESS projects could provide valuable benefits to the distribution system. The Commission should require Xcel during the implementation of Phase 2 to develop a full accounting of the system benefits and the value of those benefits to conduct a comprehensive cost/benefit analysis for use in future procurements and in Phase 3 of the C*C program. It is this value stream that Xcel is most uniquely qualified to quantify and define for the benefit of Phase 2 and future phases of C*C. For the program to be successful, all available use cases and value streams must be explored and defined.

f. Applicability of MNDIP

Xcel's proposal intends C*C BESS projects to bypass the MNDIP interconnection queue by using flexible interconnection. Whether that is appropriate or not should depend on a key principle: if C*C projects consume generator hosting capacity on the feeder and disadvantage others in the feeder queue, the project should have to go through MNDIP and join the queue as it exists. Conversely, Xcel should only be allowed to jump the feeder queue if the C*C project can be designed and operated to not consume any generator hosting capacity on the feeder. If projects do go through the MNDIP queue, they should not be studied under a worst-case scenario. Utility control of the system would circumvent the need for that sort of study and allow even more efficiency in the study process to get these projects online quickly. Similar to charging cost and rate treatment above, the interconnection treatment and applicability of MNDIP for any utility owned BESS should also apply to any future third-party owned BESS system connected to Xcel's distribution system under the same terms.

Theoretically, proper usage of DERMS should open additional generator hosting capacity on constrained feeders. Xcel currently reserves 20% of the available hosting capacity under their Technical Planning Limit ("TPL"). This is a result of a calculation that does not allow generation capacity to exceed 80% of equipment rating plus daytime minimum load ("DML"), which fortunately can be managed by increasing load during otherwise low load times (i.e., by timely charging front of the meter BESS systems). Proper

management could potentially negate the need for the TPL and open additional hosting capacity already installed on Minnesota’s grid.

IV. Conclusion

CEEM supports Commission approval of Phase 2 of Capacity*Connect and appreciates Xcel’s leadership in pioneering a forward-looking model for distributed capacity procurement. We are particularly excited about the program’s core premise: deploying battery storage strategically on the distribution grid to improve reliability, reduce peak pressures, and accelerate clean energy deployment statewide.

We believe Phase 2 can succeed as a first step, and we respectfully recommend incorporating limited refinements—particularly around competitive development pathways, equitable charging and interconnection treatment, and robust evaluation of system benefits—to maximize value for customers and ratepayers. With these improvements, Phase 2 can establish the foundation for a scalable Phase 3 that fully leverages Minnesota’s experienced development community, expands opportunities for third-party participation, and unlocks a broader suite of distributed solutions.

CEEM looks forward to continuing collaboration with Xcel, Commission staff, and stakeholders. We see significant potential in Capacity*Connect to transform how energy storage is planned and deployed, and we are enthusiastic about helping shape the program’s future to deliver long-term benefits for Minnesota’s energy system and economy.

Respectfully submitted,

s/ *George Damian*

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