



414 Nicollet Mall  
Minneapolis, Minnesota 55401

January 10, 2018

—Via Electronic Filing—

Daniel P. Wolf  
Executive Secretary  
Minnesota Public Utilities Commission  
121 7<sup>th</sup> Place East, Suite 350  
St. Paul, MN 55101

Re: REPLY COMMENTS  
RENEWABLE DEVELOPMENT FUND – CYCLE 4  
REVISED GRANT CONTRACT FOR AN ENERGY PRODUCTION PROJECT (EP4-15)  
DOCKET NO. E002/M-12-1278

Dear Mr. Wolf:

Northern States Power Company, doing business as Xcel Energy, submits to the Minnesota Public Utilities Commission this Reply to the December 21, 2017 Comments of the Minnesota Department of Commerce. We appreciate the Department's review of our Petition.

We have electronically filed this document with the Commission, and copies of the summary have been served on the parties on the attached service list.

Please contact me at (612) 330-6270 or [allen.krug@xcelenergy.com](mailto:allen.krug@xcelenergy.com) if you have any questions regarding this filing.

Sincerely,

/s/

ALLEN D. KRUG  
ASSOCIATE VICE PRESIDENT, STATE REGULATORY POLICY

Enclosures  
Cc: Service List

STATE OF MINNESOTA  
BEFORE THE  
MINNESOTA PUBLIC UTILITIES COMMISSION

Nancy Lange	Chair
Dan Lipschultz	Commissioner
Matthew Schuerger	Commissioner
Katie J. Sieben	Commissioner
John A. Tuma	Commissioner

IN THE MATTER OF THE PETITION OF  
NORTHERN STATES POWER COMPANY, A  
MINNESOTA CORPORATION, REGARDING  
A CHANGE IN SCOPE OF A RENEWABLE  
DEVELOPMENT GRANT CONTRACT

DOCKET NO. E002/M-12-1278

**REPLY COMMENTS**

**INTRODUCTION**

Northern States Power Company, doing business as Xcel Energy, submits to the Minnesota Public Utilities Commission this Reply to the December 21, 2017 Comments of the Minnesota Department of Commerce on the First Amended and Restated Contract with the Minnesota Renewable Energy Society (MRES) for its project numbered EP4-15. We appreciate the Department's review of our Petition, and we provide our Reply here. The Company continues to support its original proposal, as outlined in the Department's Option #2.

As the Company understands, Department's Option #2 is consistent with the Company's Initial Petition, wherein the Company requested Commission approval of two contract amendments:

- (1) The executed First Amended and Restated RDF grant contract; and
- (2) The yet-to-be-executed amendment, which would increase the grant amount and the capacity MRES will install.

The First Amended and Restated RDF grant contract has been executed by the Company and MRES and would (1) allow third-party ownership of the MRES project, consistent with the provisions allowing third-party ownership of other Cycle 4 projects, and (2) reduce the RDF grant amount to allow MRES to use the Community Solar Garden (CSG) Tariff for the two, approximately 500 kW<sub>DC</sub> solar gardens they had initially proposed in 2013.

While third-party ownership of a RDF project is not uncommon among Cycle 4 grantees, the fact that MRES proposed a CSG in its 2013 proposal, before that concept existed under Minnesota law, and has now revised its project to have only low income subscribers makes its proposal unique. MRES explicitly agreed in the executed First Amended and Restated Contract that subscribers to its solar gardens would either “meet (i) low income eligibility requirements for individuals/families or (ii) reside in multi-family housing meeting low income eligibility requirements” and MRES committed to “[e]valuate the economics associated with developing Community Solar Gardens targeted specifically at low-income home energy assistance program-qualified subscribers” in preparing its reports on the RDF project. The Company agreed to let MRES’ solar gardens participate in the existing CSG program because creating a separate, small 1 MW tariffed solar garden program specifically for low income customers of MRES’ solar garden would be confusing to interested subscribers and administratively burdensome.

The Company and MRES also agreed that the RDF grant award should be reduced by approximately \$1.4 million—the difference between the net present value (NPV) of the energy sold under the CSG program and the PPA contemplated in MRES’ original April 2013 proposal. The Company then compared the MRES project’s Total Resource Cost per kWh (TRC) as initially proposed in 2013 and as amended by the First Amended and Restated Contract in 2017. The Company compared the TRC because that is the metric used when Cycle 4 energy production projects were initially evaluated (as opposed to its overall project cost or other financial metrics) and accounted for thirty percent of a project’s technical score. The Company’s analysis showed that the First Amended and Restated Contract reduced the TRC for the MRES proposal, thereby making the project more attractive, by this metric, than MRES’ original proposal.

With regard to the approval of the yet-to-be-executed amendment, this project is again unique in that it is the first RDF project where a proposed contract amendment (the First Amended and Restated Contract) resulted in a significant grant reduction.<sup>1</sup> The Company customarily negotiates grant contract amendments, files them with the Commission, and, if necessary<sup>2</sup> requests Commission approval. MRES’ ability to build its originally proposed project for \$1.4 million fewer grant dollars by using the existing CSG program opened up the potential to take that unused \$1.4 million (or

---

<sup>1</sup> It is also worth noting that the entire list of “reserve projects” for Cycle 4 has been exhausted, so there are no other Cycle 4 projects awaiting possible RDF grant funding.

<sup>2</sup> See Section II.C. of our Initial Petition explaining the types of RDF contract changes that require Commission approval.

some portion thereof) and build another low income solar garden. Because expanding the scope of an RDF project in this manner is novel, in its Initial Petition, the Company essentially sought Commission approval to negotiate a grant contract amendment using the same methodology it used to calculate the reduced grant contract to determine the additional grant monies. In the Company's Initial Petition, it contemplated filing this contract amendment as a compliance filing as the Company proposed to use the same methodology to calculate additional grant monies as it used in the executed First Amended and Restated Contract.

While the Company continues to prefer the Department's Option #2, in this Reply we will respond to the Department's other options, provide additional detail about customer protections, and clarify MRES' budget in the First Amended and Restated Contract.

## **A. Project Options**

The Company has reviewed the three options discussed by the Department to calculate the amount of a revised project grant award.

### ***1. Department's Option #1***

The Company's understanding of Department Option #1 is to allow third-party ownership of MRES' two planned solar arrays, but to not allow MRES' solar gardens to participate in the Company's existing CSG program. Instead, MRES and the Company would need to negotiate a unique PPA (which would in turn require Commission approval) and then create a new, separate tariffed solar garden program specifically for MRES' 1 MW-worth of solar garden subscribers (which would also require Commission approval and additional administrative burdens for the Company). The Department's Option #1 would further reduce the grant award so that MRES would only receive a \$514,352 grant award, as compared to the \$2,661,320 the Commission approved in its March 11, 2014 Order and the \$1,283,029 grant the Company proposed in its Initial Petition. Since this is not the contract amendment currently pending before the Commission, if this option is selected, the amendment would need to be negotiated and presumably come back to the Commission for some sort of approval or compliance review. In addition, Option #1 does not appear to allow MRES to create a third community garden in conjunction with the City of Minneapolis and take advantage of the economic and project efficiencies already associated with developing two similar gardens.

The Company has consulted with MRES regarding the Department's proposed Option #1. MRES informed the Company that this option will not work because it assumes the third-party investor agrees to the change in financing, reduces the grant amount to budget amounts from a year ago without accounting for the passage of time, uses five-year old PPA prices, and eliminates the proposed Minneapolis portion and low-income benefits. Since the execution of the Grant Contract in 2015, MRES has obtained a different solar consultant who has identified reductions in development fees, facility costs and equipment to decrease the proposed total budget for the project. Since execution of the First Amended and Restated Grant Contract in 2017, certain components of the overall project cost have risen due to module cost volatility over the intervening period and as well as higher-than-expected interconnection costs.

While MRES or its third-party investor would be best situated to speak to most of the concerns identified above, the Company has significant concerns with the customer and industry confusion related to developing a second program with its own set of parameters. We anticipate a second program, developed for a single project, would result in duplicative and contradictory rules to the robust program which has developed over the past five years. Creating a second program when the CSG program is so mature would likely prompt confusion among parties and the market, and questions to the Company, MRES, and potentially other subscribers.

It appears the Department's reduced grant amount in this alternative is intended to keep the amount of cost sharing equal to that contemplated under the original proposal. The Company believes looking at the cost sharing level in isolation is not consistent with how other RDF projects have been evaluated in the past. While the cost sharing level is considered in the RDF evaluation process, it is only one factor considered and the TRC, which measures the overall cost effectiveness of a project, is relied upon much more heavily in traditional RDF project evaluations.

The Department inquired about the end date for this alternative. End dates for RDF grants are typically found in Exhibit C in the form of a timeline by which a grantee expects to complete the final milestone. In our Initial Petition, MRES and the Company agreed that the final milestone would be completed 27 months after Commission approval of the contract amendment. Because Option #1 is so different from the Company and MRES' executed First Amended and Restated Grant Contract (and the existing 2015 Grant Contract), it would require renegotiating the contract and it is difficult to say with certainty what selecting this option would do to the project end date.

For these reasons, the Company does not support the Department's Option #1.

## *2. Department's Option #2*

The Company's understanding of the Department's Option #2 is to approve the Company's entire Initial Petition: essentially approving the executed First Amended and Restated Contract and allowing the Company to negotiate another contract amendment to increase the capacity installed along with the related grant award amount. This is the Company's preferred alternative.

This alternative does not seek to create a new solar garden program when the Company's robust CSG program already exists. Instead, it uses the existing structure and pricing of the CSG program, which has been approved by the Commission. A goal for RDF energy production grant funding is to buy down project costs to be competitive with the market.<sup>3</sup> The MRES project will focus on low-income subscribers which are a unique market sector that the current CSG pricing structure has had trouble reaching due to risks associated with credit scores, subscriber mobility, and subscriber acquisition costs.

To account for a higher energy price in the CSG program as compared to the PPA price MRES proposed in 2013, the Company evaluated the energy costs over time through the use of NPV of the power generated. This accounts for both a higher energy price as well as a longer contract period through the CSG program. Therefore, the Company used the NPV of energy produced as the basis for determining the level of grant funding included in the First Amended and Restated Contract rather than a cost-sharing approach.

The Department is correct that the Cost Sharing Level identified as a percentage of the budget is a factor that the independent evaluator considered in the scoring process. The level of cost sharing is only one of several variables that are considered when evaluating and scoring proposals for award selection. Factors such as efficient use of project funds, appropriate budget level and the financing plan are considered in the calculation of a proposal score. The TRC, however, was a scoring component that accounted for thirty percent of a RDF grantee's technical score, and was calculated to evaluate and quantify the cost effectiveness of a proposal and impact to ratepayers.

The TRC calculation includes the total project cost of developing the energy production portion of the project and the energy price proposed net of Xcel Energy's

---

<sup>3</sup> Page 8, Cycle 4 RDF Request for Proposals

avoided energy costs. This value is a better determination of value to the ratepayers since it includes the long-term cost of power generated. The TRC of the MRES proposal was \$0.2597/kWh which was the 39<sup>th</sup> out of 45 energy production proposals. As shown on Attachment D of the Company's September 22, 2017 petition, a change in the energy price and longer term would result in a revised TRC of \$0.1820/kWh which is a reduction from the original grant proposal TRC calculation and would *increase* the TRC ranking to 22<sup>nd</sup> of 45 energy production proposals.

As stated within our Initial Petition, the use of CSG energy pricing would allow opportunity to increase the installed capacity of the project and install a third garden. The partnership between MRES and the City of Minneapolis provides an option to install an additional garden that would focus on low-income participation and provide a unique public private partnership model for evaluation.

As provided in Exhibit C, the contract end date under this alternative would be 27 months after Commission approval of the grant contract for the two locations identified in the First Amended and Restated Grant Contract. The contract end date for purposes of the to-be-executed amendment that would allow for a third solar garden would need to be negotiated as part of the amendment.

For these reasons and those stated in our Initial Petition the Company supports the Department's Option #2.

### *3. Department's Option #3*

The Company's understanding of the Department's Option #3 is to approve only the executed First Amended and Restated Contract, but not allow the Company to move forward to negotiate another contract amendment to increase the capacity installed. This project essentially lets MRES' originally planned solar gardens become part of the CSG program, but does not allow MRES to use grant funds to build a third low income CSG in Minneapolis in conjunction with the City of Minneapolis and take advantage of the economies of scale associated with the development of two such gardens.

We understand expanding access to the benefits of renewable energy to low income utility customers is an important policy goal in Minnesota. The MRES-City of Minneapolis proposed project is one of a few models emerging to address this goal, and we believe the opportunity it presents to generate learnings is worthy of exploration. The Company appreciates that this request to expand the scope of a

RDF project in this manner is unusual. For the previously stated reasons regarding the allowance of the CSG tariff and those stated in our September 22, 2017 petition, the Company believes MRES proposal to create another low income solar garden in Minneapolis is an innovative proposal, and therefore prefers the Department's Option #2, over Department Option #3.

The contract end date under this alternative would be 27 months after Commission approval of the grant contract for the two locations identified in the First Amended and Restated Grant Contract.

## **B. Ratepayer Protections**

We believe our proposal is reasonable in part because it contains customer cost protections. The effective Grant Contract and the proposed First Amended and Restated Grant Contract contain conditions to protect ratepayer interests from the risk of project failure. First, Section 3 only allows for Contractor to be reimbursed for "actual and allowable expenses incurred in accordance with Exhibit C." This section continues and requires that the total amount of reimbursable expenses shall only be the *maximum of either* the Contractor's total actual and allowable costs or the amount stated in Exhibit C, "whichever is less." Exhibit C further identifies the milestones that must be met before any reimbursement of expended funds are provided.<sup>4</sup> Most notably, the milestones are aligned to require the completion and commissioning of a facility before any RDF funds are disbursed. If the project fails and no facilities are completed or commissioned, no RDF funds will be disbursed under either the Grant Contract or the proposed First Amended and Restated Grant Contract.

Attachment B of our September our September 22, 2017 petition includes the negotiated special conditions to protect ratepayers to allow third party financing is approved.

## **C. Budget Clarification**

The discrepancy between the "Total Project Budget Amount" of \$1,871,560 and the "Total Costs" of the Project of \$1,819,452 in Exhibit C are a clerical error. The correct amount is \$1,819,452.

---

<sup>4</sup> If Option 2 were selected by the Commission, Exhibit C would require amendment to identify the deliverables necessary for the third solar garden location and the additional grant funds to be paid out for completion of that solar installation.



## **CONCLUSION**

We appreciate the Department's review of our petition and hope the additional Information we provide in these Reply Comments meets the Department's requests for further clarification and information. We respectfully request that the Commission approve Option #2.

Dated: January 10, 2018

Northern States Power Company

STATE OF MINNESOTA  
BEFORE THE  
MINNESOTA PUBLIC UTILITIES COMMISSION

Nancy Lange	Chair
Dan Lipschultz	Commissioner
Matthew Schuerger	Commissioner
Katie J. Sieben	Commissioner
John Tuma	Commissioner

IN THE MATTER OF THE PETITION OF  
NORTHERN STATES POWER COMPANY, A  
MINNESOTA CORPORATION, REGARDING  
A CHANGE IN SCOPE OF A RENEWABLE  
DEVELOPMENT GRANT CONTRACT

DOCKET No. E002/M-12-1278

**REPLY COMMENTS**

**SUMMARY OF FILING**

Please take notice that on January 10, 2018 Northern States Power Company, doing business as Xcel Energy, filed with the Minnesota Public Utilities Commission reply comments to the December 21, 2017 comments of the Minnesota Department of Commerce.

## CERTIFICATE OF SERVICE

I, Carl Cronin, hereby certify that I have this day served copies of the foregoing document or a summary thereof on the attached list of persons.

xx by depositing a true and correct copy or summary thereof, properly enveloped with postage paid in the United States mail at Minneapolis, Minnesota; or

xx via electronic filing

**Docket No.        E002/M-12-1278**

Dated this 10th day of January 2018

/s/

---

Carl Cronin  
Records Analyst

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Mara	Ascheman	mara.k.ascheman@xcelenergy.com	Xcel Energy	414 Nicollet Mall Fl 5  Minneapolis, MN 55401	Electronic Service	No	OFF_SL_12-1278_Official
Generic Notice	Commerce Attorneys	commerce.attorneys@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota Street Suite 1800  St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_12-1278_Official
Carl	Cronin	Regulatory.records@xcelenergy.com	Xcel Energy	414 Nicollet Mall FL 7  Minneapolis, MN 554011993	Electronic Service	No	OFF_SL_12-1278_Official
Ian	Dobson	Residential.Utilities@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012130	Electronic Service	Yes	OFF_SL_12-1278_Official
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 280  Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_12-1278_Official
James	Gibson	james.gibson@farmamerica.org	Farmamerica	7367 360th Avenue  Waseca, MN 56093	Electronic Service	No	OFF_SL_12-1278_Official
Cheryal Lee	Hills	chills@regionfive.org	Region Five Development Commission	200 First Street NE Suite 2 Staples, MN 56479	Electronic Service	No	OFF_SL_12-1278_Official
Thomas	Melone	Thomas.Melone@AllcoUS.com	Minnesota Go Solar LLC	222 South 9th Street Suite 1600 Minneapolis, Minnesota 55120	Electronic Service	No	OFF_SL_12-1278_Official
Shalini	Menezes	smenezes@interphases.com	InterPhases Solar	668 Flinn Avenue  Moorpark, CA 93021	Electronic Service	No	OFF_SL_12-1278_Official
Robert	Messerich	b.messerich@gmail.com	Dragonfly Solar, LLC	10583 202nd St West  Lakeville, MN 55044	Electronic Service	No	OFF_SL_12-1278_Official

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Alan	Muller	alan@greendel.org	Energy & Environmental Consulting	1110 West Avenue Red Wing, MN 55066	Electronic Service	No	OFF_SL_12-1278_Official
David	Shaffer	shaff081@gmail.com	Minnesota Solar Energy Industries Project	1005 Fairmount Ave Saint Paul, MN 55105	Electronic Service	No	OFF_SL_12-1278_Official
Pamela A.	Webb	N/A	University of Minnesota	450 McNamara Alumni Center 200 Oak St SE Minneapolis, MN 55455-2070	Paper Service	No	OFF_SL_12-1278_Official
Dr. Don	Weinkauf	N/A	University of St. Thomas	Mail OSS 101 2115 Summit Ave St. Paul, MN 55105-1079	Paper Service	No	OFF_SL_12-1278_Official
Daniel P	Wolf	dan.wolf@state.mn.us	Public Utilities Commission	121 7th Place East Suite 350 St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_12-1278_Official