

**STATE OF MINNESOTA
PUBLIC UTILITIES COMMISSION**

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December 4, 2014

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

Docket No. E002/M-13-867

**REPLY COMMENTS IN RESPONSE TO THE COMMISSION'S OCTOBER 9, 2014 NOTICE BY
FRESH ENERGY,
INSTITUTE FOR LOCAL SELF-RELIANCE, AND
IZAAK WALTON LEAGUE OF AMERICA**

Fresh Energy, Institute for Local Self-Reliance, and Izaak Walton League of America (“Solar Interveners”) respectfully submit these Reply Comments in response to the Commission’s October 9, 2014 Notice of Reply Comment Period in this docket.

In its September 17, 2014 Order, the Commission “direct[ed] 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.”¹

In response, Solar Interveners and other parties submitted initial comments on October 1, 2014 and submit the following in Reply to that filing and in response to the Commission’s October 9, 2014 Notice.

REPLY COMMENTS

The notice for reply comments encourages parties to submit evidence or information on a number of topics, many of which are seeking solar market data aimed at building a record and presenting information to the Commission on an appropriate “financeable rate,” as set out in statute. Solar Interveners are not market participants, and as such, do not have access to evidence to support a particular “financeable rate” or in-depth customer information beyond what we provided in our initial comments.

However, we address the following topics noted in the Commission’s Notice of Reply Comment Period in the interest of creating a robust, cost-effective, and inclusive Solar*Rewards Community (SR*C) program:

- **Rate structure and timeline:** the Commission should not set the structure and details of a future value of solar (VOS) rate adder at this time, but should wait to use market data based on the first year of SR*C projects under the current rate structure. While we believe the SR*C program should move to a VOS rate in the future that likely will require an initial adder, the adder design

¹ *Id.* at 19.

and amount will be more accurately designed, cost-effective and supportable if it is based on market data from a maturing market. We also suggest that the Commission set a timeline for rate structure decisions in the future to limit market uncertainty as much as possible.

- **Identifying a funding source for any incentives ordered by the Commission:** the Renewable Development Fund is not a better source for funding a future incentive than the fuel clause rider that the Commission already ordered.
- **Issues raised by other parties' initial comments:** The Commission should disregard Xcel's attempt to explicitly link its Solar Energy Standard obligations with the SR*C program's capacity.
- **SR*C Interconnection:** the SR*C program launch will provide insight into Minnesota's and Xcel's current interconnection procedures and the Commission should request reporting from Xcel on SR*C interconnections.

Rate Structure and Timeline

The Notice of Reply Comment Period asks for comments on potential incentive designs, the size of an incentive budget, and a recommended timeline for determining a decision on an appropriate financial adder in conjunction with a VOS-rate. The Commission should not set the structure and details of a future VOS-rate adder at this time, but should instead make these decisions based on real market information from the SR*C program and projects as the program matures.

Solar Interveners continue to believe that transitioning SR*C to a VOS-based rate is the right long-term program rate because a VOS-rate is transparent, predictable, and fair. As we stated in our June rate comments:

The VOS is transparent because the VOS Methodology was developed in a transparent manner, with a high level of diverse stakeholder input over the course of four Department workshops and multiple comment opportunities before the Commission. The VOS rate itself is also relatively transparent, as the VOS Methodology requires utilities to incorporate numerous "transparency elements" in their VOS filings, along with all relevant data assumptions and the various required data tables.² It is fair because under the VOS, a subscriber's 25-year bill credit rate is firmly established at the outset of the subscription.³ This fact allows subscribers to more easily predict and project the benefits of participation over the relevant 25-year period. Finally, through statute the VOS rate is intended to fairly compensate eligible solar generators for the value they provide "to the utility, its customers, and society."⁴ By approving the VOS Methodology, the Commission has affirmed that the methodology meets this statutory goal.⁵

As mentioned, for projects interconnecting in the initial years of a VOS rate, an adder will likely be necessary to allow for the reasonable creation of community solar gardens (CSG) that are also reasonably accessible. However, we anticipate that an adder should only be necessary in the near-term to bridge the SR*C program to a point where an adder is not necessary for on-going reasonable CSG creation and accessibility. Any adder design should, similar to the VOS-rate, be fair, transparent, and analytically sound. ELPC, IREC and VoteSolar's (National Groups) reply comments in this docket include examples and attributes of incentive program designs that can be used to design an adder that meets these goals.

² Minnesota Value of Solar: Methodology at 6-10.

³ *Id.* at 6. *But see id.* at 43-45 (establishing a variable annual inflation adjustment).

⁴ Minn. Stat. § 216B.164, subd. 10(a).

⁵ The Commission has also established that the Department may "update the [VOS] methodology to use the best available practices, as necessary." Commission Order Approving Distributed Solar Value Methodology, M-14-65, April 1, 2014 (Minnesota Value of Solar: Methodology at 6.)

However, the Commission should not establish adder design structure and details at this time. The SR*C program is set to launch sometime in the next six weeks, and early indications suggest strong developer and customer interest. Based on our discussions with stakeholders and involvement in the process, we anticipate applications in the first quarter to exceed Xcel's expectations⁶ and may exceed 100 MW or more if all interested developers have large projects ready at the outset.⁷ The CSG statute and legislative intent is that CSGs are created and financeable – which are both evidenced by strong CSG development. Moreover, with its overall 2013 solar legislation, the Legislature intended to give the industry a “jump start.” Again, strong CSG development helps realize this goal by installing many more megawatts of solar capacity directly accessible to customers than Minnesota currently has, attracting new companies to the state, creating jobs, and attracting large amounts of private capital investment in Minnesota. SR*C is a new program for Minnesota, and solar is a developing industry in the state. Strong program interest is a good sign for the first year of a new program and the Commission certainly has flexibility in adjusting the program as it evolves.

For these reasons, it is not the right time to fully design a VOS rate adder structure, set capacity targets and a budget, because doing so is not needed in the short-term to create gardens, and allowing the program to run and progress to installed projects will provide real market data. Using this real-world experience will result in a future VOS-rate adder design that is much more informed by actual market data than if an adder is developed at this juncture. A delay in setting a potential VOS adder will:

1) allow the Commission and stakeholders to use actual installed cost data gathered per Minn. Stat. 216B.1611 subd. 3a, allowing a better grasp of project economics and market uptake under current rates;

2) provide information on the subscriber mix that results from current rates. This information will inform whether an adder should be structured to target participation from certain customer classes;

3) provide information on SR*C locations, which will inform if an adder should be structured to increase projects in different locations – both in the sense of community property type (rooftop, brownfield, or greenfield) as well as consideration of incentives targeting places on the distribution system where a solar installation would provide additional value to the system; and

4) allow the Commission and stakeholders to consider an updated VOS calculation, as well as time to fully vet an updated VOS calculation.

Because the program information gained from the first set of SR*C projects will be crucial for rate structure going forward, the Commission should request Xcel to file public program information described in the SR*C Subscriber Agency Agreement and Consent Form ahead of these decision points.⁸

In the meantime, we propose that the Commission set a timeline for upcoming decision points to limit market uncertainty, including 1) when REC prices under the ARR will be adjusted, and 2) when the Commission will consider a switch to VOS-based rate, and in conjunction with that decision, VOS-rate adder design if one is necessary. Clarity on the timing for these rate structure decisions will help limit a rush of applications driven by lack of certainty as to whether and when SR*C rates and REC prices will change. For the decision on a VOS-based rate and adder decision, we suggest the Commission set an initial decision timeline now, while reserving flexibility to update the decision timeline based on the SR*C roll-out. We anticipate that enough market information will be available for the Commission to make a rate decision in 2016 after Xcel's updated 2016 VOS calculation is settled. This timing will allow a little

⁶ Xcel has forecast different levels for the SR*C program ranging from less than ~40MW to less than ~100MW over the next five to ten years. See Xcel October 2, 2014 Compliance Filing, 14-788, at 21; Xcel October 10, 2014 Response to Information Request No. 5, 14-788, 12-1240; Xcel November 3, 2014 Reply Comments, 12-1240.

⁷ Initial applications will go into the SR*C project queue, but it is very likely that not all projects will eventually become operating CSGs. Therefore, we can expect that that actual capacity amount of operating CSGs to be less than is in the initial queue.

⁸ Section No. 9, Sheets Nos. 95-97, including, but not limited to, the number of SR*C project and interconnection applications by county, aggregate SR*C MWs applied for, and MWs at various stages of the Section 10 interconnection process.

over a year of program data and updated VOS calculation. Moreover, this timing will allow for a better understanding of how the solar Investment Tax Credit 2016 adjustment should be included in the analysis. However, the Commission should closely monitor the SR*C roll-out, invite stakeholder discussion regarding future rate structure and request information as it becomes available. If the Commission decides rate changes are required ahead of 2016, it should clearly communicate an updated timeline to all stakeholders with enough lead-time to ensure rate changes are inclusive, transparent, and stable. In our view, at this juncture forward market clarity and transparency are as important as the rate amount.

Finally, we suggest the Commission adopt the above approach because it satisfies the CSG statute requirements. Initial indications suggest this approach reasonably allows for the creation and financing of CSGs because a robust amount of CSGs will be developed under the current rate in this first year. This approach will also provide market information that is more likely to lead to a design that is both cost-effective and accessible, while also charting a course that will eventually move the program to an unsubsidized VOS-based rate.⁹

Funding Source for Incentives Ordered by the Commission

In its October 1st comments, Xcel suggests that the Renewable Development Fund (RDF) is the most appropriate source for any future CSG incentives ordered by the Commission.¹⁰ Solar Interveners disagree and suggest the Commission not change its decision in its September Order to use the fuel clause rider to fund SR*C program expenses. The Commission should not change the funding source as 1) the Commission's rationale for using the fuel clause rider is still sound; 2) Xcel's reasons for preferring the RDF also apply to the fuel clause rider; and 3) because using the RDF as a funding source will add unnecessary complexity.

In its September Order, the Commission approved Xcel's proposal to recover costs from the SR*C program through the fuel clause rider because doing so allows Xcel to recover program costs while doing so in the same manner it recovers costs from wind PPAs.¹¹ Neither of these reasons has changed nor will change in the future.

The RDF is used to fund many different technologies, especially emerging technologies. It has historically included funding for energy production, research and development, and projects at higher education institutions, and has an application process with a designated board to evaluate proposals that are not otherwise legislatively allocated separately to fund a specific program. Therefore, partially funding the SR*C program through the RDF will reduce the amount of funds available for both non-solar technologies and non-utility program proposals. Moreover, the RDF is structured such that Xcel only solicits proposals for funding when the fund has accrued sufficient funding. So far, there have been four funding cycles since the RDF was established in 1999: in 2001, 2005, 2008, and 2014.¹² Adding another funding commitment to the RDF is likely to further delay the next available the funding cycle.

Moreover, Xcel's reasoning for suggesting funding source changes is not persuasive. Xcel offers three material reasons: 1) that two other solar incentives (Solar*Rewards and Made in Minnesota) receive some funding from the RDF; 2) that the RDF is funded by Xcel customers; and 3) that the RDF

⁹ If the Commission decides to move forward with designing a VOS-rate adder at this time, Solar Interveners suggest that it look to the designs and structure in the National Group Comments. Solar Interveners do not support the program designs proposed by Xcel in its initial comments. An RFP structure is not properly inclusive or flexible enough to accommodate the various project types and sizes that CSGs can take and will lead to a "boom-bust" cycle. Likewise, Xcel's declining incentive schedule would require adjustments in budget and timing, as well as detail changes adopting best practices described by National Groups.

¹⁰ Xcel Comments at 6.

¹¹ At 18.

¹² http://www.xcelenergy.com/Environment/Renewable_Energy/Renewable_Energy_Grants.

allows Xcel to recover program costs.¹³ Both its second and third points are not reasons to move from the fuel clause rider because both are also met with the fuel clause rider – the rider is funded by Xcel customers and allows Xcel to recover those costs. Finally, Xcel’s argument that recovering SR*C expenses through the RDF would bring consistency with two other solar incentives that have multiple funding sources themselves is not a sufficient to warrant the Commission changing its September Order point, nor a sufficient reason to reduce the RDF funds available and further extend its funding cycles.

Other Issues Raised in October 1st Comments

The Commission should disregard Xcel’s attempt to explicitly link the SR*C program with its Solar Energy Standard (SES) compliance obligations. Xcel attempts to explicitly link the two related, but distinctly separate, statutes by arguing that its progress towards meeting its SES compliance obligations should be a factor in future incentive design and that a risk of setting a future incentive too low “can result in the installation of insufficient capacity to meet the utility’s compliance targets.”¹⁴

Xcel’s attempt to explicitly link the SR*C program and the SES is unfounded because the SES and the CSG program are governed by two distinct statutes. SES compliance, outlined in Minnesota statute 216B.1691, is not dependent in any way on the SR*C program, which is governed by the CSG statute, 216B.1641, and has its own requirements. The two capacity-related provisions in the CSG statute are aimed at ensuring creation of CSG projects and are not related to the SES. The first requirement is that CSG programs “reasonably allow for the creation, financing, and accessibility of community solar gardens.”¹⁵ The second is that CSG programs cannot have capacity caps.¹⁶ Of course the SR*C program can be a tool by which Xcel meets its SES obligations, but only through the solar RECs Xcel procures from SR*C projects. In the context of Xcel’s example regarding the risk from setting a program incentive too low, the risk is not whether Xcel will meet SES obligations (as there are many other mechanisms for SES compliance), but whether the SR*C rate is too low to meet the CSG statute’s obligations; namely, whether the rate “reasonably allow[s] for the creation, financing, and accessibility of community solar gardens.”¹⁷ Likewise, the SES cannot be considered as an upper-bound on CSG capacity because the CSG statute explicitly does not allow capacity limits on the program.¹⁸

Of course SR*C projects will be a part of Xcel’s renewable generation and solar portfolio and, therefore, should be a resource analyzed during resource planning along with Xcel’s SES and RES obligations. However, SES compliance, nor RES compliance for that matter, should be a factor in any future SR*C incentive design or used to limit the SR*C’s program capacity.

Interconnection

The solar community’s robust response to the SR*C program’s launch will likely be the largest volume of solar interconnection requests Xcel has received so far in Minnesota, and will likely be coming in at or near the launch date. With this projected volume and timing, the SR*C launch will provide good information on how Minnesota’s and Xcel’s current interconnection procedures handle increased interconnection volume. The Commission’s April 7 Order noted that “the Commission can revisit [the interconnection issue] at a future time if the parties’ initial experience with the solar-garden program

¹³ Xcel Comments at 6.

¹⁴ *Id.* at 7.

¹⁵ Minn. Stat. §216B.1641(e)(1).

¹⁶ Minn. Stat. §216B.1641(a) (“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.”).

¹⁷ *Id.*

¹⁸ *Id.* This section does include limitations related to Minn. Stat. §216B. 164 subd.4c, but that section is narrow and un related to the Solar Energy Standard or overall program capacity.

demonstrates the need to do so.”¹⁹ As the Commission anticipated, the SR*C launch will be a good opportunity to inform whether Minnesota’s or Xcel’s interconnection procedures require an update.

We agree with the Nation Groups’ suggestion that the Commission require Xcel to submit the interconnection reporting information required under Minn. Stat. §216B.1611, subd. 4, as well as reporting specific to the SR*C program. This information would include the number, location, size and status of projects in its existing interconnection queue, as well as the percentage of applications that have been successfully processed and/or are proceeding within the required timelines. Because interconnection approval delays have the potential to significantly stall project installation, the Commission should request this information monthly for the first quarter of the program’s opening and quarterly after that, in a format that is publicly available for all stakeholders to the extent possible.²⁰

In addition, we agree with the National Group comments regarding updating interconnection procedures to reflect current best practices. It makes sense to be proactive when there are clear areas for improvement. The National Groups, especially IREC, are leading experts in interconnection and an excellent resource of which Minnesota should take advantage.

CONCLUSION

In conclusion, we respectfully request the Commission not set the structure and details of a future VOS rate adder at this time, but wait to use market data based on the first year of SR*C projects under the current rate structure. While we believe the SR*C program should move to a VOS rate that likely will require an initial adder, the adder design and amount will be more accurately designed, cost-effective and supportable if it is based on market data from a maturing market. We also suggest that the Commission set a timeline for future rate structure decisions to limit market uncertainty as much as possible. In addition, the Commission should not adopt Xcel’s proposal to fund future SR*C rate adders through the RDF and should reject Xcel’s attempts to explicitly link SR*C statutory requirements with its SES obligations. Finally, the Commission should require SR*C interconnection information reporting from Xcel and consider beginning an interconnection update process.

¹⁹ At 11.

²⁰ Aggregated information should provide relevant data without raising individual project privacy or system security concerns.

Very truly yours,

/s/ Erin Stojan Ruccolo

Erin Stojan Ruccolo
Director, Electricity Markets
Fresh Energy
408 St. Peter Street, Suite 220
St. Paul, MN 55102
(651) 726-7567
ruccolo@fresh-energy.org

/s/ Allen Gleckner

Allen Gleckner
Senior Policy Associate
Fresh Energy
408 St. Peter Street, Suite 220
St. Paul, MN 55102
(651) 726-7570
gleckner@fresh-energy.org

/s/ John Farrell

John Farrell
Senior Researcher
Institute for Local Self Reliance
jfarrell@ilsr.org

/s/ Eric Jensen

Eric Jensen
Acting Energy Program Director
Izaak Walton League of America
ejensen@iwla.org