

Minnesota Public Utilities Commission
Staff Briefing Papers

Meeting Date: May 15, 2014**Agenda Item #4

Company: All Rate Regulated Electric Utilities

Docket No. **E-999/M-14-65**

**In the Matter of Establishing a Distributed Solar Value Methodology
under Minn. Stat. §216B.164, subd. 10 (e) and (f)**

Issue: Should the Commission reconsider its April 1, 2014 Order?

Staff: Michelle Rebholz 201-2206
Susan Mackenzie 201-2241

Relevant Documents

Commission, Order April 1, 2014
Xcel Energy, Request for Reconsideration April 21, 2014
MnSEIA, Answer April 29, 2014
Minnesota Power, Answer April 30, 2014
Otter Tail Power, Answer May 1, 2014
Fresh Energy et al, Answer May 1, 2014
Department of Commerce, Answer May 1, 2014
Minnesota Rural Electric Association, Answer May 1, 2014

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Statement of the issue

Should the Commission reconsider its April 1, 2014 Order?

Background

Legislation was passed in 2013 requiring the Department of Commerce (Department) to file a Distributed Solar Value methodology with the Minnesota Public Utilities Commission (Commission) by January 31, 2014. The Commission must approve, modify with the Department's consent, or disapprove the methodology within 60 days. See Minn. Stat. §216B.164, subd. 10, Alternative tariff; compensation for resource value.

On April 1, 2014, the Commission issued an Order approving the methodology as proposed and modified with the consent of the Department.

On April 21, 2014, Xcel Energy (Xcel) filed a petition requesting reconsideration of the Commission's Order.

Petition

Staff has only included a very high level summary of the petition and answers here and refers the Commission to the filings themselves for more detail.

Xcel requested reconsideration on four issues:

- 1) *Avoided generation capacity costs*: Xcel states that the methodology approved presumes solar will avoid more capacity than the amount legislatively mandated.
- 2) *Avoided environmental cost: carbon value*: Xcel believes that a value other than the federal "Social Cost of Carbon" (SCC) would serve as a better proxy for determining environmental costs. Xcel suggests the midpoint of the Commission's carbon value.
- 3) *Avoided transmission capacity costs*: Since the transmission investments that are most likely to be avoided by solar are those associated with a natural gas unit, Xcel recommends valuing the avoided transmission costs using the costs associated with the interconnection of planned natural gas units instead of looking to the MISO network integration service rate.
- 4) *Avoided distribution capacity cost*: Xcel prefers an average peak load reduction (PLR) calculation, which recognizes that customer classes often do not peak at the same time on the distribution system as a whole. The approved methodology's PLR, in Xcel's view, does not reflect the variability of solar nor recognizes that customer classes have different load peaks because it is based on the coincident system generation peak.

Xcel also states that its current projection of the VOS rate is nearly double the approach it set forth, and nearly triple its current qualifying facility rate for all other distributed generation.

Answers

MnSEIA filed a two page answer noting that Xcel's reconsideration raises no new issues. MnSEIA also raised concerns that the solar construction season is approaching and time is of the essence with respect to Xcel's obligation to file a VOS rate as part of the Community Solar Garden docket.

Minnesota Power filed a brief answer generally supporting Xcel's petition the need for flexibility in setting a VOS rate that reflects the dynamics of a utility's system, including marginal cost for avoided transmission capacity, avoided fuel costs, and the need for flexibility as it relates to different customer classes. MP also supported Xcel's request to not use the Social Cost of Carbon. MP raised one additional issue: while the VOS statute limits the Commission's actions on the Department's initial methodology, the statute is silent, in MP's view, as to how the Commission may make further evaluations or modifications after the initial VOS methodology is approved.

The Department filed a brief answer disagreeing with Xcel's reconsideration petition. Staff refers the Commission to the DOC's answer for its specific positions, but notes that on the Avoided Environmental Cost-Carbon Value portion of Xcel's petition, Xcel's February 18, 2014 comments in the 07-1199 docket ("Planning Values Docket"), Xcel wrote that, while it supports the existing carbon planning values, the changes in regulatory expectations since the values were established means that a direct carbon planning price may not be the only or best way to include these costs in resource planning decisions.

Minnesota Rural Electric Association (MREA) filed an answer agreeing with Xcel's petition and its position on the four topics discussed in Xcel's petition. In general, MREA stated that it is concerned the methodology does not reflect the true value of solar to a utility, but is instead an incentive rate designed to encourage the installation of more distributed solar generation.

The Solar Intervenors¹ stated that Xcel's petition should be rejected for two reasons: first, the Department's Value of Solar Methodology approved by the Commission meets all statutory requirements. Second, each of the arguments Xcel has made has already been considered and rejected by the Commission. Staff refers the Commission to the Solar Intervenors' answer for more details on its position.

OTP filed a one-page answer agreeing with Xcel's petition. OTP, like MREA, stated it was concerned that the methodology relates more to stimulating solar development rather than assuring moderated cost impacts for all customers, regardless of their participation in solar offerings.

¹ The Solar Intervenors are: Fresh Energy, Environmental Law and Policy Center, Institute for Local Self-Reliance, and the Izaak Walton League of America.

Staff Comment

Minnesota Statutes §216B.27 and Minnesota Rules 7829.3200 govern reconsideration petitions. Such petitions are denied by operation of law unless the Commission takes action within sixty (60) days of the request. The Commission has the authority to accept or decline a petition for reconsideration with or without a hearing or oral argument, under Minn. Rules 7829.3000, subpart 6.

If the Commission takes up a party's request for reconsideration, the Commission can: 1) reconsider and (a) affirm, (b) modify or (c) reverse its initial decision, or (2) toll the time period to allow additional time for reconsideration, or (3) deny the petition for reconsideration and thereby affirm the final decision. The Commission may also reconsider its Order on its own motion.

Pursuant to Commission practice, only a Commissioner who voted on the prevailing side may make a motion for rehearing/reconsideration. A summary of the voting on this matter is provided as Attachment 1.

As noted by MnSEIA, Xcel's petition raises no new issues. Xcel does state that it projects a VOS rate to be very high. MP appears to suggest that the statute's silence regarding later modifications to the methodology may give the Commission authority to modify the methodology in reconsideration. While staff agrees that the statute's silence on further modifications is an open issue, staff suggests that this is not a matter for development in reconsideration but rather, an issue when and if a VOS tariff is approved and in effect for some time.

Staff recommends either denying the request for reconsideration or, if the Commission is interested in reconsidering, tolling the time period and taking oral comment on the reconsideration request at a future meeting rather than taking up the merits of the methodology at the May 15th agenda meeting.

Decision Options

1. Deny the Petition for reconsideration.
2. Grant the Petition for reconsideration.
3. Toll the time period to allow additional time for reconsideration.

Attachment 1: Summary of Action at March 12, 2014 Agenda Meeting

Chair Heydinger moved to take the following action:

Approve the methodology described in the January 31, 2014 *Minnesota Value of Solar: Methodology* with the following modifications:

- a. Fuel price escalation factor: 30-day averages are used for the NYMEX Natural Gas Futures contract prices for years 1 through 12; For years beyond year 12, the general escalation rate is used as the guaranteed fuel price escalation.
- b. Avoided distribution capacity cost: Set the distribution peak load growth rate based on the utility's estimated future growth over the next 15 years. If the result is zero or negative (before adding solar PV), set the avoided distribution capacity cost to zero.
- c. Utilities may select the set of Commission-established non-CO₂ avoided environmental cost values most appropriate to their service territory.

Commissioner Wergin moved to amend the pending motion to require that the methodology calculate the avoided environmental costs of CO₂ using the Commission-established planning value for CO₂ of \$21.50 rather than the EPA's Social Cost of Carbon.

The Wergin motion to amend the pending motion did not pass, 2 – 3 (Heydinger, Lange, and Lipschultz opposed).

The unamended Heydinger motion passed 3 – 2 (Boyd and Wergin opposed).

Chair Heydinger moved to take the following actions:

Clarify that the Commission's adoption of the Department's methodology or the values contained is not intended to have any precedential effect.

Require utilities to apply the Methodology as filed (and revised) and to work with the Department to clarify questions regarding the construction and use of spreadsheets and tables.

Direct staff to solicit comments on issues raised by the parties that were outside the scope of the notice, such as effect on existing net-metered customers, conformity with PURPA, REC ownership disclosure, and any other issues the Commission identifies.

The motion passed 5 – 0.