

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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In the Matter of the Petition of Northern States Power Company, d/b/a Xcel Energy, for Approval of a Renewable*Connect Pilot Programs

ISSUE DATE: February 27, 2017

DOCKET NO. E-002/M-15-985

DOCKET NO. E-002/M-13-603

In the Matter of the Petition of Xcel Energy for Approval of the Acquisition of 600 MW of Wind Generation

DOCKET NO. E-002/M-13-716

DOCKET NO. E-002/M-14-162

In the Matter of the Petition of Xcel Energy for Approval of the Acquisition of 150 MW of Wind Generation

ORDER APPROVING PILOT PROGRAMS AND REQUIRING FILINGS

In the Matter of Xcel Energy's Petition for Approval of a Solar Portfolio to Meet Initial Solar Energy Standard

PROCEDURAL HISTORY

On November 12, 2015, Northern States Power Company, d/b/a Xcel Energy (Xcel, or the Company) requested the Commission's approval for a "Renewable*Connect" pilot program to be offered under Minn. Stat. § 216B.169. The statute authorizes a utility to offer one or more rate options for utility customers to secure electricity from renewable or high-efficiency, low-emission sources.

On September 21, 2016, the Company requested approval for an additional "Renewable*Connect Government" pilot program, also under Minn. Stat. § 216B.169. This program would be offered, initially, to the state Department of Administration to purchase renewable energy for the state capitol and nearby state buildings.

On October 28, 2016, the Company filed updated pricing information for the two proposed pilot programs.

By November 15, 2016, the following had filed comments on the proposals:

- Advanced Energy Economy
- Best Buy
- CHS Inc.; Flint Hills Resources, LP; Gerdau Ameristeel US Inc.; USG Interiors, Inc.; and Unimin Corporation (the Xcel Large Industrials)
- Energy Freedom Coalition of America
- Environmental Initiative
- Fresh Energy, Minnesota Center for Environmental Advocacy, and Wind on the Wires (the Clean Energy Organizations)
- Minnesota Department of Commerce, Division of Energy Resources (the Department)
- Office of the Attorney General – Residential Utilities and Antitrust Division (the OAG)
- Sam’s East, Inc. and Wal-Mart Stores East, LP
- Sundial Solar
- World Resources Institute

On November 29, 2016, the following filed reply comments:

- The Clean Energy Organizations
- The Department
- Energy Freedom Coalition of America
- The OAG
- Target Corporation
- Xcel
- World Resources Institute

On January 12, 2016, the Commission met to consider the proposals.

FINDINGS AND CONCLUSIONS

I. Summary of Commission Action

The Commission will approve the proposed pilot programs subject to annual reporting requirements and the requirement that Xcel adjust its accredited wind and solar capacity assumptions to reflect updated values for the 2016/2017 Midcontinent Independent System Operator (MISO) planning year.

II. Renewable and High-Efficiency Energy Rate Options Statute

Minn. Stat. § 216B.169 authorizes utilities to offer one or more rate options for utility customers to secure electricity from renewable or high-efficiency, low-emission sources. Under the statute,

Rates charged to customers must be calculated using the utility's cost of acquiring the energy for the customer and must:

1. reflect the difference between the cost of generating or purchasing the additional renewable energy and the cost that would otherwise be attributed to the customer for the same amount of energy based on the utility's mix of renewable and nonrenewable energy sources; and
2. be distributed on a per kilowatt-hour basis among all customers who choose to participate in the program.¹

The Commission is also guided by other statutory provisions encouraging it to authorize rates and make resource planning decisions that promote renewable energy generation and use, such as Minn. Stat. § 216B.03 (“To the maximum reasonable extent, the commission shall set rates to encourage energy conservation and renewable energy use”) and Minn. Stat. § 216B.2422, subd. 4 (prohibiting approval of a new or refurbished nonrenewable energy facility in an integrated resource plan or a certificate of need without a demonstration that a renewable energy facility would not be in the public interest).

The Commission has previously approved one rate program proposed by Xcel, Windsource, under Minn. Stat. § 216B.169.²

III. Proposed Programs

Xcel proposed two renewable energy rate options that it says are designed to address customer interest in long-term, fixed price renewable energy. The two options would be available to different groups of Xcel customers—Renewable*Connect would be available to new and existing customers;³ Renewable*Connect Government enrollment would be limited to government customers. According to the Company, a variety of customer preferences, particularly as to the length of the agreement, justifies having separate programs for government

¹ Minn. Stat. § 216B.169, subd. 2(b).

² Order Approving Renewable Energy Rider as Revised, Clarified, and Modified, *In the Matter of Xcel Energy's Petition for Approval of a Renewable Energy Rider*, Docket No. E-002/M-01-1479 (May 7, 2002).

³ Excluding customers who do not purchase fuel or pay the Fuel Clause Adjustment, such as non-metered and street-lighting customers.

and other customers. These programs would supplement Xcel's existing renewable energy programs and rate options, such as Windsource.⁴

The Company stated that it developed the proposed programs in response to market research and input from customers seeking renewable energy options that more closely match customer needs and preferences, e.g., long-term commitments, fixed prices, and advancing customers' environmental and renewable energy goals. To achieve the programs' design goals, Xcel requested that the Commission approve dedicating the output of a portion of the Company's existing renewable generation resources to the programs.

Xcel proposed to initially dedicate to Renewable*Connect 50 megawatts (MW) of wind from the Odell Wind Farm and 25 MW of solar from the North Star Solar Project, plus an additional 3.3MW of the Odell Wind Farm and the North Star Solar Project for Renewable*Connect Government.⁵ Program enrollment would be limited by the amount of generation capacity dedicated to the programs.

As in the Windsource program, participating customers would pay a per-kWh rate for energy in lieu of the fuel clause charge those customers would ordinarily pay. The per-kWh rate would be fixed for the length of a participant's term, and the same per-kWh rate would be made available to all customers enrolling for the same term length in the same year. The Renewable*Connect program would offer month-to-month, five-year, and ten-year term lengths, as well as a special-event-duration option. Renewable*Connect Government participants would enroll for twenty-year terms.

The rate paid by participating customers would comprise the following cost (and cost-offsetting) components:

- **Resource cost:** the cost incurred to acquire the dedicated resource (in the case of the proposed resources, determined by an existing power purchase agreement)
- **Administrative cost:** costs for initial program setup and ongoing program administration
- **“Neutrality Adjustment” charge:** intended to account for line losses, curtailment costs, renewable energy integration, system balancing costs, and the potential for stranded resources or other adverse economic impacts arising from dedicating the resources to program participants
- **Capacity credit:** intended to reflect the value of additional capacity attributable to participation in the program

⁴ The Department stated that the main energy source for Windsource is a power purchase agreement that is set to expire in 2019. Public Comments of the Minnesota Department of Commerce (November 15, 2016), at 4.

⁵ Xcel designed the Renewable*Connect Government program in consultation with the Minnesota Department of Administration to address the particular goal of providing renewable power to the State Capitol and other nearby state office buildings; the initial pilot offering of the program is sized to accommodate only that customer. The Company stated that it intended to further explore and expand the offerings under the program to other governmental customers, subject to future Commission approval.

According to the company, these components together are intended to match the costs and benefits of dedicating the renewable resources to participating customers and avoid imposing a “disproportionate increase” in costs on nonparticipating customers.

IV. Issues Raised in Comments

Comments on the proposals were generally supportive of the proposals, conceptually. Several comments from customers, in particular, asserted that the programs would be worthwhile new options for advancing their renewable energy and environmental goals.

Nevertheless, some commenters raised concerns about the proposed programs. The Commission will address concerns about the pricing components first—in particular: the neutrality adjustment and the capacity credit—followed by a discussion of other considerations such as system resource allocation and planning raised by the proposals.

A. Program Pricing

Xcel proposed to calculate a fixed per-kWh cost for participants by determining three cost components and an offsetting credit component: the resource cost, the administrative cost, the neutrality adjustment, and the capacity credit. The Department concluded that the resource and administrative cost calculations were reasonable.

But, as the OAG argued, whether or not non-participants are shielded from excess costs will depend on how the cost components are calculated. If the costs are not accurately determined “non-participants could be exposed to additional costs for the full life of long-term contracts.” Two components in particular—the neutrality adjustment and the capacity credit—were highlighted by commenters for particular scrutiny.

1. Neutrality Adjustment

According to Xcel, the neutrality adjustment is intended to capture costs attributable to dedicating system resources to participating customers but not otherwise reflected in the resource and administration cost components. These costs include “line losses, renewable energy integration and system balancing costs and the potential for stranded resources or adverse economic impacts associated with Renewable*Connect customers migrating away from resources that were procured for the system and approved and/or ordered by the Commission.” The goal of the adjustment is to ensure these costs are borne by participating customers, and to avoid imposing them on non-participating customers.

But the OAG and others argued that Xcel had not precisely quantified the values that make up the proposed adjustment charge. Because participating customers would enter a long-term contract for a fixed per-kWh rate calculated to include the adjustment charge, an imprecisely calculated adjustment charge presents a risk of recovering program-attributable costs from non-participating customers for the life of the contract.

The Department expressed concern about the amount of record information supporting the reasonableness of the proposed neutrality adjustment. However, because one of the stated goals of the pilot programs is to develop better information about the neutrality adjustment, the Department did not recommend a specific change to the Company's proposal. Instead, the Department recommended that the Commission allow the necessary information be developed through the pilot programs, for future analysis.

2. Capacity Credit

Xcel proposed to calculate a credit that "reflects the value of the additional capacity driven by participation in the program." It proposed to calculate this value by dividing the capacity value of the resource divided by the expected kWh output of the resource.

Both the Clean Energy Organizations and the OAG objected to the proposed capacity credit—the Clean Energy Organizations objected to how Xcel proposed to calculate the credit, and the OAG objected to the propriety of including a capacity credit at all. The Department concluded that the proposed capacity credit calculation was reasonable.

3. Commission Action

Having considered the objections to the cost components, the Commission will approve the pilot programs as proposed, with the exception of requiring Xcel to update its pricing assumptions and calculations to reflect MISO-accredited wind- and solar-capacity values for 2016/2017 planning year.⁶

The Commission is satisfied that, with that adjustment, the pilot programs reasonably satisfy the requirements of Minn. Stat. § 216B.169—with the understanding that the programs will be subject to annual reporting and are limited in size to the resources dedicated in this order. Approving the programs as pilot projects will allow the opportunity for more rigorous analysis of the assumptions and values that go into the rate calculations, informed by experience and data.

B. Additionality and Other Concerns

The Clean Energy Organizations and Advanced Energy Economy supported the proposals, but argued that the Commission should require that resources dedicated to the programs should be "additional" to existing Xcel system renewable resources, or that the programs should otherwise be structured to ensure that participation results in the addition of more renewable energy to Xcel's system. Commenters referred to this concept as "additionality."

Conversely, commenters such as the OAG and the Energy Freedom Coalition of America objected to the programs for being inconsistent with the state's overall utility regulatory model. In particular, they objected that the proposed service offerings conflict with what they argued was an electric utility's role in the state of Minnesota. Both the OAG and the Energy Freedom

⁶ As the regional transmission-planning authority, MISO accredits the generation capacity of wind- and solar generators on an individual and a system-wide basis. Xcel will be required to recalculate the programs' per-kWh rates using updated MISO-accredited values.

Coalition of America characterized the proposals as a type of service-offering uncharacteristic of electric utilities in Minnesota and would mark a departure from a traditional regulatory model.

The OAG and Energy Freedom Coalition of America also raised concerns pertaining specifically to the proposed Renewable*Connect Government program. It contended that the program's features, particularly that its only proposed customer is the State of Minnesota, presented unique considerations that the Commission should consider carefully and potentially could change the relationship of the state with the regulated entity. The Department indicated that it agreed with the OAG's concerns, and recommended that the Commission require Xcel to expand the pilot so the rate can be extended to additional customers.

The Commission has considered the arguments for program modifications, and for rejecting the proposals, and is satisfied that the pilot programs meet the requirements of the renewable and high-efficiency energy rate options statute, Minn. Stat. § 216B.169. Because the rate options, as proposed, meet the statutory requirements for offering a renewable rate option and are not contrary to the public interest, the Commission will authorize Xcel to implement the pilot programs.

The Commission will not require that the programs entail an increase in renewable resources on Xcel's system outside of the existing resource planning process—such a requirement is neither required by statute nor compelled by the public interest, and could frustrate the state's integrated resource planning process.

The Commission is also not persuaded that the public interest requires a determination that programs are impermissible for market structure or competitive reasons. The Company is expressly authorized by statute to offer one or more options to customers allowing the customer to secure renewable or high-efficiency electricity. The statute clearly contemplates that the electricity could be either generated by the utility or purchased by the utility on behalf of the customer—independent power producers could develop, and sell to Xcel, renewable electric generation to accommodate future expansions of these programs.

Finally, the Commission will not at this time require Xcel to increase the size of the Renewable*Connect Government program, in part because of the generally recognized need for more information about the neutrality adjustment calculation—information that is expected to be developed through the initially proposed pilot programs. Xcel has indicated its interest in expanding the program and making it available to other governmental entities. It is likely that Xcel will propose to offer Renewable*Connect Government to more customers in the relatively near term. The Commission anticipates receiving proposals for expansions of both programs as pilot program experience and information accumulate.

V. Pilot Programs Authorized and Annual Reporting

For the above reasons, the Commission will approve the proposed pilot projects under Minn. Stat. § 216B.169, subject to annual reporting requirements. Xcel will be permitted to offer the Renewable*Connect and Renewable*Connect Government programs, with participation limited by the approved capacity limits.

To the extent the dedication of generation capacity to these programs contradicts previous Commission determinations regarding cost-recovery for those resources, this order supersedes those previous orders. And by its approval of these pilot programs, the Commission does not intend to preclude further examination of issues such as capacity crediting in other dockets.

The Commission will also require Xcel to file, in the Renewable Energy Standards docket⁷ and in its Annual Automatic Adjustment reports, information addressing how the pilot programs affect those dockets, as specified in the ordering paragraphs.

ORDER

1. Xcel Energy's proposals for implementing the Renewable*Connect and Renewable*Connect Government programs, on a pilot basis, are approved, provided that Xcel adjusts its MISO-accredited wind- and solar-capacity assumptions to reflect MISO's updated values for 2016/2017 planning year.
2. Xcel Energy shall dedicate a portion of recently contracted resources for these pilot programs, as follows:
 - a. Up to 50 MW of wind from Odell Wind Farm and 25 MW of solar from the North Star Solar Project for the Renewable*Connect Pilot Program;
 - b. an additional 3.3MW of the Odell Wind Farm and North Star Solar Project for the pilot tranche of the Renewable*Connect Government Pilot Program.
3. This order supersedes orders pertaining to cost recovery of the resources identified in paragraph 2 in Docket Nos. E-002/M-13-603, E-002/M-13-716, and E-002/M-14-162.
4. Xcel's proposed Renewable*Connect and Renewable*Connect Government tariffs, Service Agreements, and Addendums are approved.
5. Xcel shall file annual reports each April 1 after the first full year of operation as listed in its filing. The annual report shall contain:
 - a. Total number of participants broken down by customer class, and by length of contract (including "special events");
 - b. Total wind production;
 - c. Total solar production;
 - d. Total Renewable*Connect expenses;
 - e. Total Renewable*Connect Government expenses;
 - f. Total Amount collected in Renewable*Connect charges;
 - g. Total Amount collected in Renewable*Connect Government charges;

⁷ *In the Matter of Commission Consideration and Determination on Compliance with Renewable Energy Standards*, Docket No. E-999/M-16-83.

- h. The Tracker balances as shown in Attachment H of Xcel's filing;
 - i. Monthly comparisons of Renewable*Connect Pricing for participants with the Fuel Charge for nonparticipant customers;
 - j. Impact of Renewable*Connect pilots on all nonparticipant customers;
 - k. Impact on all Xcel Ratepayers through updates in base rates;
 - l. Information on the number of terminations and an accounting of termination fees.
6. Xcel shall make a supplemental filing in the pending biennial Renewable Energy Standards docket (Docket No. E-999/M-16-83) explaining how the pilot programs affect its ability to comply with the 2020 Renewable Energy Standard.
7. Xcel shall provide in its Annual Automatic Adjustment reports a separate section discussing the pilot programs' impact on non-participants and the effectiveness of the neutrality charge to address any cost shift between participants and nonparticipants.
8. This order shall become effective immediately.

BY ORDER OF THE COMMISSION

Daniel P. Wolf
Executive Secretary



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