

March 29, 2019

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

RE: **Reply Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. E002/M-19-33

Dear Mr. Wolf:

Attached are the reply comments of the Minnesota Department of Commerce, Division of Energy Resources (Department) in the matter of:

Northern States Power Company d/b/a Xcel Energy's Petition for Approval of a Renewable*Connect Program.

The Department recommends that the Minnesota Public Utilities Commission (Commission) **approve with modifications**. The Department is available to respond to any questions the Commission may have on this matter.

Sincerely,

/s/ SUSAN L. PEIRCE
Public Utility Rate Coordinator

SLP/ja
Attachment



Before the Minnesota Public Utilities Commission

Reply Comments of the Minnesota Department of Commerce Division of Energy Resources

Docket No. E002/M-19-33

I. BACKGROUND INFORMATION

On February 27, 2017, the Minnesota Public Utilities Commission (Commission) issued its *Order Approving Pilot Programs and Requiring Filings* in the matter of Northern States Power Company d/b/a Xcel Energy's (Xcel or the Company) request for approval of its Renewable*Connect (R*C) Pilot Program in Docket No. E002/M-15-985. Participating customers in the R*C Pilot pay a per-kilowatt-hour (kWh) rate for wind- and solar-generated electricity in lieu of the fuel clause charge they would normally pay. The R*C Pilot is to end on December 31, 2026.

On February 21, 2018, the Commission issued its *Order Approving Tariff Revisions with Modifications* in the matter of Xcel's request for approval of revisions to the R*C Pilot Program in Docket No. E002/M-17-695.

On January 7, 2019, Xcel filed a petition requesting approval to expand its R*C Program into a full-time, permanent offering.

II. DEPARTMENT ANALYSIS

The Minnesota Office of the Attorney General – Residential Utilities and Antitrust Division (OAG), Fresh Energy and a coalition of solar developers including SunShare, Sunrise Energy Ventures and Solarstone Partners (Community Solar Garden or CSG Providers) all filed comments on Xcel's R*C program. The Department provides the following response to concerns raised by these parties.

A. OAG

The OAG offered significant objections to Xcel's proposal, including that the Company has not demonstrated a need through the Integrated Resource Plan (IRP) process, that non-participants assume the risk of under-subscription because unsubscribed energy will be recovered through the fuel clause, that long-term contracts could unfairly impact non-subscribers, that the charge for R*C could increase more slowly than the fuel clause adjustment, that the neutrality adjustment is flawed, and that it directs the cheapest resources to R*C customers.

The IRP process is used to evaluate the least cost resource mix needed to serve a utility's load, and focuses on evaluating the high-level aspects of size, type and timing of needed resources. In its last IRP, Xcel received Commission approval to acquire at least 1,000 MW of wind by 2019 and 650 MW of solar in the years 2016 – 2021. In addition, the Commission stated that "acquisition of greater than 1,000 MW of wind may be approved upon submission of evidence such as price, bidder, qualifications, rate impact, transmission availability, and location, ...and may pursue additional, cost-effective solar resources if it is in the best interests of its customers."¹ Wind has been the lowest cost resource in recent IRPs, while solar prices, particularly for utility scale solar, have been rapidly declining and cost effective.

Furthermore, the additional wind and solar acquired for Renewable*Connect will offset other acquisitions when Xcel files a new IRP later this summer. Xcel will need to obtain approval of any new wind or solar purchase power agreement (PPA) acquired to serve its R*C customers, which will provide an opportunity to ensure that the price of the additional renewable energy is reasonable. Consequently, the acquisition of additional wind and solar is not of concern.

Xcel proposes to recover the cost of any unsubscribed energy through the fuel clause from non-participating customers. Given that wind, and increasingly solar, are often least cost resources, the Department concludes that the Commission need not be concerned with the potential for impacting non-participants.

The OAG also raised concerns with the neutrality adjustment proposed by Xcel as a means of limiting the rate impact to non-participating customers. In particular, the OAG stated that Xcel proposes to include a fixed neutrality adjustment in its long-term offerings that may prove highly inaccurate as time and experience is gained with the program. In its month-to-month R*C offering, Xcel's tariff states, "The neutrality charge is subject to change upon Commission order"; however, a similar statement does not appear in the long-term program tariff. The Department agrees with the OAG that the neutrality charge should be subject to revision upon Commission Order for both the month-to-month and long-term offerings.

Finally, the OAG raised concerns that the R*C program has the potential to strand investments and leave non-participating customers paying for existing expensive generation sources while directing the new least cost generation to program participants. As currently proposed, the R*C program does not have unlimited resources available to serve participants, but is limited to serving customers from the proposed capacity. Xcel will need to obtain Commission approval to expand the capacity of its R*C program beyond that contemplated by this filing.

¹ In the Matter of Xcel Energy's 2016-2030 Integrated Resource Plan, *Order Approving Plan with Modifications and Establishing Requirements for Future Resource Plan Filings*, Docket No. E002/RP-15-21, January 11, 2017, Ordering Points 3 and 4.

Consequently, the Commission will have ample opportunity to review the program and evaluate its impact on Xcel customers prior to permitting any further expansion.

B. CSG Providers

The CSG Providers argued that Xcel's proposal would result in anti-competitive conditions for the solar garden (CSG) industry because CSG providers are subject to size constraints and other conditions. The CSG Providers expressed concern that "Xcel has not committed to ensuring that Renewable*Connect will, in fact, always be a premium product", but could result in a discount relative to existing fuel costs if natural gas prices increase significantly. The Department concludes that a voluntary green pricing program that may result in lower bills for participants is not of concern. In addition, Minn. Stat. §216B.169, Subd. 2(b)(1) requires that rates for a green pricing program such as R*C must be cost based and:

Reflect the difference between the cost of generating or purchasing the additional 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.

If the R*C program resulted in lower energy prices than the cost of Xcel's "mix of renewable and nonrenewable energy sources", the Department understands this statutory provision to mean that the R*C could only charge customers for the lower cost of its energy. In contrast to the CSG Program, the R*C's neutrality adjustment is intended to protect non-participating customers from paying for the cost of the R*C program.²

C. Fresh Energy

Fresh Energy supports Xcel's R*C proposal, but recommends that the Company be required to include a capacity credit value for its long-term offerings consistent with the capacity credit being included in the month-to-month offering. Xcel includes a capacity credit for its month-to-month R*C offering because it proposes to use existing resources with accredited capacity to serve those customers. In contrast, the Company's most recent IRP demonstrated no capacity need until 2025. The lack of a capacity need coupled with the acquisition of new resources results in no capacity credit being included in the long-term offering until 2025. The Department recommends that the Commission accept Xcel's capacity credit methodology.

² The solar credit paid to CSG subscribers is paid for by all customers through the fuel clause adjustment (FCA). The most recent monthly FCA (Docket No. E002/AA-19-196) shows approximately \$3.6 million in above market solar garden costs, solely for the month of January, 2019, flowing through the FCA for recovery from all customers for the CSG Program.

III. DEPARTMENT RECOMMENDATION

The Department recommends that the Commission approve Xcel's proposed Renewable*Connect Program with the following modification:

Include the statement, "the neutrality charge is subject to change upon Commission order", in its tariffs for the Long-term Renewable*Connect Program.

/ja

CERTIFICATE OF SERVICE

I, Linda Chavez, hereby certify that I have this day served copies of the following document on the attached list of persons by electronic filing, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

MINNESOTA DEPARTMENT OF COMMERCE – Reply Comments

Docket Nos. **E002/M-19-33**

Dated this **29th** day of **March, 2019**.

/s/Linda Chavez

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