MINNESOTA
PUBLIC UTILITIES COMMISSION

Staff Briefing Papers

Meeting Date	July 11, 2019		Agenda Item 2 **
Company	Northern States Power Company dba Xcel Energy		
Docket No.	**E002/M-19-33** **In the Matter of Northern States Power Company, dba Xcel Energy, request for approval of its Petition to expand its Renewable*Connect Program**		
Issues	Should the Commission approve Xcel Energy's Petition to expand its Renewable*Connect Program?		
Staff	Andrew Bahn	Andrew.bahn@state.mn.us	651-201-2249

✓ **Relevant Documents**	**Date**
Docket No. E002/M-15-985, Order Approving Pilot Program and Requiring Filings	February 27, 2017
Docket No. E002/M-17-695, Order Approving Tariff Revisions with Modifications	February 21, 2018
Docket No. E002/M-15-985, Xcel Informational Letter	July 3, 2018
Xcel Energy Petition – Initial Filing	January 7, 2019
Docket No. E002/M-19-58, Xcel Petition for Approval of Amendment to PPA with Moraine Wind II, LLC	January 15, 2019
The Department of Commerce Comments	February 27, 2019
Fresh Energy Comments	March 12, 2019
The OAG-RUD Comments	March 13, 2019

Relevant Documents	**Date**
CSG Providers Comments	March 14, 2019
Docket No. E002/M-19-58, Order Approving Amended PPA with Moraine Wind II, LLC	March 25, 2019
Fresh Energy Reply Comments	March 29, 2019
The Department of Commerce Reply Comments	March 29, 2019
Xcel Energy Reply Comments	March 29, 2019
Docket No. E002/M-19-270, Xcel Compliance Filing, R*C Pilot Program - First Annual Report	April 1, 2019
Docket No. E002/M-19-270, Errata to Xcel Compliance Filing, R*C Pilot Program - First Annual Report	April 12, 2019
Docket No. E002/M-01-1479, Xcel Compliance Report – Windsource	May 1, 2019

I. Statement of the Issues

Should the Commission approve Xcel Energy's (Xcel) Petition to expand its Renewable*Connect (R*C) Program?

II. Background

On November 12, 2015, in Docket No. E002/M-15-985, Xcel requested the Commission's approval for a Renewable*Connect (R*C) 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 February 27, 2017, the Commission issued an order approving the R*C and R*C Government Pilot programs proposed by Xcel.

On September 21, 2017, Xcel filed a petition requesting approval of revisions to its tariffs governing the R*C pilot program.

On February 21, 2018, in Docket No. E002/M-17-695, the Commission issued an order approving tariff revisions related to the R*C Pilot program.

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

III. Xcel's R*C Pilot Program

On February 21, 2017, the Commission approved Xcel's Petition for Approval to implement R*C Pilot program. The R*C Pilot program offered customers the option to source their energy from dedicated renewable sources that were previously approved by the Commission. Xcel dedicated up to 50 MW of wind from the Odell Wind Farm and 25 MW of solar from the North Star Solar Project to the of R*C Pilot. Program enrollment was limited by the amount of generation capacity dedicated to the program.

The R*C Pilot program was available to all new and existing customers, and similar to the Windsource program, customers could subscribe to 100 kWh blocks or 100 percent of their annual load, but subscriptions were not to exceed 100 percent of customer's annual load, and customers could not subscribe to a portion that exceeded 10 percent of the energy of the resources dedicated to Pilot program.[1]

Similar to the Windsource program, participating customers pay a per-kWh rate for energy in lieu of the fuel clause adjustment (FCA or Fuel Charge) those customers would ordinarily pay. The per-kWh rate is fixed for the length of a participant's term, and the same per-kWh rate is made available to all customers enrolling for the same term length in the same year. The R*C

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[1] Docket No. E002/M-15-985, *In the Matter of Petition for Approval of a Renewable*Connect Pilot Program,* Initial Filing/Petition, November 12, 2015. p. 13.

Pilot program offers month-to-month, five-year, and ten-year term lengths, as well as a special-event-duration option. The rate paid by participating customers comprises 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; and
- **Capacity credit:** intended to reflect the value of additional capacity attributable to participation in the program

Xcel stated it would observe the customer response during the R*C Pilot and, prior to seeking approval to offer R*C as a standing program, it would consider the need to reserve future capacity based on customer class.[2]

In its Order Approving the R*C pilot, the Commission required Xcel to file annual reports each April 1 after the first full year of operation containing the following information:[3]

1) Total number of participants broken down by customer class, and by length of contract (including "special events");
2) Total wind production;
3) Total solar production;
4) Total R*C expenses;
5) Total R*C Government expenses;
6) Total Amount collected in R*C charges;
7) Total Amount collected in R*C Government charges;
8) The Tracker balances as shown in Attachment H of Xcel's filing;
9) Monthly comparisons of R*C Pricing for participants with the Fuel Charge for nonparticipant customers;
10) Impact of R*C pilots on all nonparticipant customers;
11) Impact on all Xcel Ratepayers through updates in base rates; and
12) Information on the number of terminations and an accounting of termination fees.

In addition, the Commission required that Xcel to provide in its Annual Automatic Adjustment reports a separate section discussing the R*C Pilot programs' impact on non-participants and

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[2] *Id.*, Initial Filing/Petition p. 12.

[3] *Id.,* Order Approving Pilot Programs and Requiring Filings, February 27, 2017, Ordering ¶5, p. 8-9.

the effectiveness of the neutrality charge to address any cost shift between participants and nonparticipants.[4]

On September 21, 2017, Xcel filed a Petition for approval of a modification to the R*C Pilot program to remove the 10 percent per-customer limit on subscription size.[5] According to Xcel, when it first proposed this sizing limitation, the purpose was to ensure that the participation of large energy users did not effectively exclude the participation of small energy users, such as small businesses or residential customers. Xcel stated that this restriction was an important safeguard for the public interest in assuring program access.[6]

In its Revisions Petition, Xcel stated that the R*C Pilot program had attracted more than 1,900 Residential subscribers. However, Xcel explained that it proposed to remove the size restriction, because approximately one-third of the R*C Pilot program remained unsubscribed at the time. Xcel explained further that there were certain customers who were prepared to subscribe to a larger portion of the tranche if the subscription size requirement was removed.[7]

On February 21, 2018, the Commission issued an Order approving Xcel's proposal to remove the 10% subscription limit for the first tranche of the R*C pilot program.[8]

On July 3, 2018, Xcel filed an informational letter reporting that the customers have signed commitments for the full capacity in the R*C Pilot program. In the Letter Xcel also stated that more customers have stated an interest in subscribing to an expanded R*C program if more capacity became available, and the Company initiated a customer wait list to track this interest.[9]

IV. Xcel's Petition for Approval of a Renewable*Connect Program

Xcel's January 7, 2019 Petition requested approval to expand its R*C Pilot into a full-time, permanent product offering. Xcel stated in its Petition that the R*C Pilot program sold out in less than one year, had nearly 3,200 participants, with more than 400 customers on a waiting list for more program capacity.[10] More specifically, Xcel stated that the pilot serves more than 3,000 residential premises with 22 GWh annually and nearly 150 commercial and industrial customers with over 150 GWh annually.[11]

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[4] *Id.,* Ordering ¶7, p. 9.

[5] Docket No. 17-695, I*n the Matter of Petition for Approval of Revisions to the Renewable*Connect Pilot Program*, September 21, 2017.

[6] *Id.,* p. 6.

[7] *Id.*

[8] *Id.* Order Approving Tariff Revisions with Modifications, Ordering ¶3, pp. 3-4.

[9] Docket No. 15-985, Xcel Informational Letter, July 3, 2017.

[10]Xcel Energy Petition – Initial Filing*,* pp.1-2

[11] *Id.,* p. 11.

According to Xcel, its proposed expansion is a relatively complex plan that follows a path to a permanent product platform, which includes the following components:[12]

1) Discontinuation of Windsource;
2) Migration of Windsource resources and customers to a new service platform under R*C;
3) Introduction of new service options under a permanent program; and
4) Introduction of a service option for high off-peak usage customers.

In its Petition, Xcel proposed to expand R*C to two new offerings. Xcel stated that the first offering was designed as a standing offer for a month-to-month subscription and would represent the migration of Windsource subscriptions and remaining resources into the expanded R*C program, along with the addition of new solar resources. Xcel referred to this offering as the "Ongoing Month-to-Month" offer.[13]

The second new offering proposed by Xcel would be supplied by a mix of new wind and solar resources. Xcel stated this offering was tailored to the needs of large Commercial and Industrial (C&I) customers. Xcel referred to the second new option as the "Long Term" offer.[14]

Xcel proposed to expand its resources dedicated to R*C with an estimated 30 MW of new solar generation for the Ongoing Month-to-Month Offer and 150 MW of new wind generation and 50 MW of new solar generation for the Long Term offer.[15]

Xcel proposed to split the Long Term offer into two time-of-use differentiated options to meet customer requirements with varying usage profiles. For customers with usage profile more in line with the system average (i.e., off-peak usage of less than 62.5 percent of total usage), Xcel proposed a Standard option that consists of 50 MWs of wind and 25 MWs of solar similar to the R*C Pilot offering. For customers that have a higher percentage of usage occurring during the off-peak period (i.e. off-peak usage at 62.5 percent or above), Xcel proposed an option with a higher proportion of wind energy. Xcel stated the High Off-Peak usage option blends 100 MWs of wind and 25 MWs of solar energy. Xcel claimed this usage option reflects costs of these resources, which are lower than the standard option. Xcel claimed further that the pricing structure of the High Off-Peak usage offer is reasonable because the Company is passing on to subscribers the actual costs of the resources that serve them. [16]

Specifically, in its Petition, Xcel requested Commission approval of:[17]

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[12] Xcel Energy Petition – Initial Filing, p. 3.

[13] *Id.,* p. 3.

[14] *Id.*

[15] *Id.,* p. 5.

[16] *Id.* pp. 27-28

[17] *Id.,* pp. 5-6.

- The program structure, pricing methodology, and terms and conditions of the new offerings;[18]
- The Tariff sheets for the new Long Term Offer;[19]
- The content of the Tariff sheets for the Ongoing Month-to-Month Offer, the current revision to the Tariff sheets for Windsource removing minimum subscription periods and the revisions to the Tariff sheets for Windsource (and the pilot, with permission to file these Tariff sheets with approved pricing at or near the time the resources are in place;[20]
- The transition of Windsource Program customers to the Ongoing Month-to-Month Offer of our Renewable*Connect program;
- The transition of month-to-month pilot customers to the Ongoing Month-to-Month Offer of Renewable*Connect, and the cancellation of the pilot Service Agreements for these customers;
- The ability to utilize energy from a system wind resource during months of low wind production to support the new offerings balanced by excess wind production in months where generation exceeds usage;
- The allocation to the system of any excess energy from existing or new R*C Program resources and the recovery of excess energy costs through the Fuel Charge;
- Use of a negative check-off process for amendments to the customer Service Agreement that may differ from an approved and tariffed version of the Service Agreement for the Long Term Offer of the R*C Program; and
- Its proposed annual reporting components and tracker report template.

According to Xcel, the basic features of the R*C Pilot program remain unchanged in this proposal.[21]

A. Discontinuance of Windsource

According to Xcel, the Windsource program is currently facing several challenges, which are described below:[22]

1) Windsource operates under an administratively established price from an earlier generation of the wind market;
2) Several of the resources that supply energy to Windsource customers are expiring in the next few years;

[18] *Id.,* See Attachment F through I-2.

[19] *Id.,* See Attachment D.

[20] *Id.,* See Attachments B, C, E and E1.

[21] *Id.,* p. 16.

[22] *Id.,* p. 2.

3) Customers subscribing to Windsource have expressed a desire to be served by solar in addition to wind; and
4) Customers are confused about the presence of more than one brand of "green tariff" in the Company's portfolio and are unclear about the distinctions between Windsource and R*C.

Xcel explained that 20 wind PPAs will expire at different points in time. Xcel also stated it had negotiated a 10-year extension to the current Moraine II PPA at pricing at or near current market prices and an increasing amount of Moraine II can be used to support the Windsource program as the smaller PPAs expire over time and as customer demand for Windsource grows. Xcel stated it will monitor the amount of energy available from Moraine II such that new resource acquisitions could be planned in a coordinated manner to replenish the resource base of the program as needed. As new resources are needed, Xcel stated it will request approval from the Commission that resources be added or allocated to this offering.[23]

Xcel proposed that Windsource will continue being administered as it currently is until 2021. Xcel also proposed the continued use of Moraine II under the same cost allocation method currently in effect. Xcel explained that energy production from Moraine II is allocated periodically to Windsource customers and the system, and on a semi-annual basis, the Company may adjust the allocation percentage to meet the needs of the program. Xcel explained further that the energy costs are then allocated based on the established percentages and recovered through the Windsource Program rider and the FCA, respectively.[24]

In addition, Xcel stated that, in recognition of the impending transition to R*C, the minimum term lengths to participate in Windsource will be removed. Finally, in order to avoid customer confusion during this transition period, Xcel stated that the name will remain Windsource, but upon approval of the new offering, the Company will begin communicating with customers regarding the upcoming realignment of Windsource into R*C.[25]

B. Ongoing Month-to-Month Offer

Xcel explained that the Ongoing Month-to-Month offer was designed primarily to meet the needs of residential and small business customers. According to Xcel, the offering would maintain key Windsource features, including being open continuously and would be made available to customers through auto-renewing month-to-month subscriptions. In addition, Xcel stated the Month-to-Month offer would be made available to customers for special events. [26]

Xcel proposed to transfer Windsource customers into the Ongoing Month-to-Month Offer on an opt-out basis in 2021, or the time at which the new solar resource is available to be incorporated into the program. Xcel also proposed that the R*C pilot month-to-month

[23] *Id.,* pp. 19-20.

[24] *Id.*

[25] *Id.*

[26] *Id.,* p. 18.

subscribers be merged into the new Ongoing Month-to-Month Offer. Xcel stated it was committed to establishing an Ongoing Month-to-Month price that will be equal to, or less than, the current Windsource program tariff rate and the current R*C Pilot month-to-month rate.[27]

Prior to the opening of program enrollment and prior to broad awareness marketing, Xcel stated it will notify Windsource customers directly by e-mail and direct mail to inform them of the impending transition from Windsource to R*C and of their opportunity to opt out. Xcel explained that customers can opt out of the program without penalty, but there is no option to receive Windsource-branded service after the program is transitioned. Xcel noted that Customers' subscription sizes will be unchanged through the transition.[28]

1. Ongoing Month-to-Month Pricing

Xcel explained the pricing methodology for the Month-to-month offer mirrors the basic elements upon which the pilot was designed. Xcel stated that the pricing formula remains the cost of the resource, less a capacity credit, plus administrative costs, plus a neutrality adjustment.[29]

Xcel explained further that the neutrality adjustment includes consideration for line losses, curtailment costs, renewable energy integration, and system balancing costs. Xcel explained that the neutrality adjustment revenues will be credited to the FCA, minimizing impact to non-participating customers from program-related costs. The Company requested approval of the pricing methodology and its elements.[30]

2. Ongoing Month-to-Month Resources

Xcel stated the Ongoing Month-to-Month Offer will be supported by the portfolio of resources that are currently utilized by Windsource plus a portion of a newly acquired solar resource. According to Xcel's Petition, the 20 wind PPAs will expire at different points in time. Therefore, Xcel stressed, the 10-year extension of Moraine II and its allocation to Renewable*Connect through time is a critical component of meeting the demand of program participants.[31]

In addition, Xcel stated it would maintain the currently approved treatment of the R*C Pilot resources as being shared between the system and Renewable*Connect. Finally, Xcel assured that as customer interest in the product necessitates, the Company will request approval from the Commission that resources be added or allocated to this offering.[32]

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[27] *Id.,* p. 18.

[28] *Id.,* p. 21.

[29] *Id.,* pp. 22-23.

[30] *Id.,* p. 23.

[31] *Id.,* p. 20.

[32] *Id.*

C. Long Term Offer

According to Xcel, the new Long Term offer was designed specifically around the needs of large commercial, industrial and other customers, such as municipalities and regional governmental authorities. Xcel also stated the Long Term offer was designed to serve those customers with high off-peak usage and/or those customers seeking to further increase the mix of renewable energy within the Company's service area. As described by Xcel, the Long Term offer has two components, a "Standard" offer and a "High Off-Peak Usage" offer to conveniently serve customers with new renewable resources.[33]

Xcel stated Subscriptions will be available for both options on five-year, ten-year, fifteen-year and 20-year contract basis. However, in order to strive for continued full subscription and for term lengths shorter than the full length of the PPAs of the supporting resources, Xcel stated auto-renewals in increments of five-year extensions will be made available (with notification and the opportunity to opt out).[34]

Xcel proposed that customers participating in the long-term offer may subscribe to 100 kWh blocks or a percent of their annual load and must sign a Service Agreement that confirms program details and terms of participation.[35]

Xcel also proposed to offer R*C Pilot 5-year subscribers the opportunity to pre-enroll in the Long Term offer. Xcel stated it will procure and reserve sufficient energy to meet subscribers' requirements up to the amount of their pilot 5-year contract and they will enter into a new subscription at the conclusion of their pilot subscription.[36]

In addition, Xcel stated that customers who entered into a 10-year contract under the pilot will be given priority to enroll new premises and subscribe to additional energy through the Long Term offer. Xcel stated it would maintain the currently approved treatment of the R*C pilot resources as being shared between the system and R*C.[37]

Xcel estimated that new resources for the R*C program will not be available for approximately two years from the time of Xcel's filing of its Petition. Xcel stated that customers wishing to begin taking renewable energy service sooner than this timeline allows, may continue to enroll in Windsource. In addition, Xcel proposed to offer customers an opportunity to begin service sooner through an "R*C Bridge."[38]

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[33] *Id.,* pp. 2, 23-24.

[34] *Id.,* p. 24.

[35] *Id.,* p. 26.

[36] *Id.,* pp. 29-30.

[37] *Id.,* p. 30.

[38] *Id.,* p. 28.

As described by Xcel, customers who exercise the R*C Bridge option will receive service under the current rate schedule, and will be allocated RECs equivalent to their energy usage, which Xcel will retire on the customers' behalf. Xcel stated that customers may enter into a short-term R*C Bridge obligation that is part of the service agreement, but is effective prior to the 5-, 10-, 15-, or 20-year terms. Xcel explained that the R*C Bridge will only be available to customers enrolling in the R*C Long-Term offer, and it will be discontinued after the time the Long-Term offer is fully operational and supported by the new resources.[39]

1. Long Term Resources

Xcel stated that the Long Term offer will be supported entirely by a portfolio of new wind and solar resources and the amount needed will be based on subscription interest expressed by customers. The Company stated further that it was in negotiations for new resources and working to bring resources to this program within a short timeframe. Xcel estimated the size of the new resources to be 150 MW of new wind and 50 MW of new solar.[40]

Xcel proposed two time-of-use differentiated options to meet customer requirements with varying usage profiles. For the Standard offer, designed for customers with usage profile more in line with the system average (i.e., off-peak usage of less than 62.5 percent of total usage), Xcel proposed to add new renewable resources consisting of 50MWs of wind and 25MWs of solar similar to the R*C Pilot offering.[41]

For the High Off-Peak Usage offer, designed for customers who have a higher percentage of usage occurring during the off-peak period (i.e. off-peak usage at 62.5 percent or above), Xcel proposed to add a blend of renewable resources to its system consisting of 100 MWs of wind and 25 MWs of solar energy. Xcel explained the price for the High Off-Peak option will be lower than the standard offer. Xcel claimed that the pricing structure of the High Off-Peak usage offer is reasonable because the Company is passing on to subscribers the actual costs of the resources that serve them.[42]

Xcel stated there will be months where excess wind energy is produced to offset program energy requirements for the low wind production months, because R*C is designed to meet customers' annual energy requirements. Xcel proposed to deliver this energy to the system and recover the costs through the FCA. The Company recognized two potential impacts to non-participants from this balancing arrangement: 1) a seasonal price differential between energy produced in the summer when R*C requires more energy than can be provided by its dedicated resources and excess energy produced in the winter when R*C usage requirements are lower than the production from its dedicated resources, and 2) a PPA price difference between the

[39] *Id.,* pp. 28-29.

[40] *Id.,* p. 24.

[41] *Id.* pp. 27-28.

[42] *Id.,* p. 27.

system wind resource and the R*C. The Company proposed to compensate non-participants for this value through the balancing component of the neutrality charge.[43]

Xcel stated that this proposal addresses the operational challenge in two important ways: 1) the non-participating customer impact is mitigated as the system will continue to receive the same amount of renewable wind energy and receive the value of the seasonal and PPA price differentials, and 2) since PPA pricing is known and predictable, measuring the impact to system customers can be done more accurately and therefore improves the timeliness of compensation for the balancing value.[44]

2. Long Term Pricing

Xcel stated that its pricing formula for the Long Term offer is the same as the Ongoing Month-to-Month offer and consists of the resource cost, less a capacity credit, plus administrative costs, plus a neutrality adjustment. With respect to administrative costs, Xcel stated that the unit cost is highest for the 5-year term length and decreases for each subsequent term as the Company generally expects administrative costs to decrease as term length increases.[45]

3. Long Term – Additional Features

Additional features of the Long Term offer include assignments to corporate affiliates and a negative checkoff provision for special revisions to service agreements for specific customers. Xcel proposed that a Long Term offer subscription may be assigned to a corporate affiliate of the customer subject to restrictions designed to roughly maintain the overall subscription size. Xcel explained that, if the Service Agreement is for a number of 100 kWh Blocks, then the premises associated with such assignment must have sufficient energy usage to be reasonably expected to accommodate this. Similarly, Xcel explained that if the Service Agreement is based on the entire monthly usage, then the premises associated with the assignment, based on the last 12 months of data, must be within 85 percent to 115 percent of the energy usage of the premises set forth in the Service Agreement prior to the assignment in order to keep the monthly usage election. If customer usage is greater than 115 percent of the energy usage of the premises set forth in the Service Agreement prior to the assignment, Xcel proposed that a roughly equivalent number of 100 kWh blocks may be substituted as part of the assignment so that the actual subscription amount is roughly the same.[46]

In order to minimize the regulatory and administrative burden on the Commission and involved parties, Xcel proposed a 30-day negative check-off process if a revision to the Long Term offer Service Agreement becomes necessary for a specific customer. Under this process, Xcel stated it would file for approval of a Service Agreement amendment, and if no objection or letter stating an intent to object is filed within 30 days of the Company's filing, the amendment would

[43] *Id.,* See also Attachments I-1 and I-2.

[44] *Id.,* pp. 25-26.

[45] *Id.,* pp. 27-28.

[46] *Id.* Pp. 29-30.

be deemed approved. If an objection or letter stating an intent to object is filed within this 30-day period, Xcel proposed that the Commission would then consider the matter at a hearing and rule on whether the amendment is appropriate.[47]

D. R*C Annual Reports

Xcel proposed to update and enhance the reporting requirements for the R*C Pilot and Windsource programs for this expansion into a permanent R*C Program. Xcel stated the report will be provided on an annual basis on April 1 after the first full year of operation and will include the annual reporting requirements enumerated in the Commission's prior Order, and other relevant program narratives.[48]

V. Parties' Comments

Parties filing Comments on Xcel's R*C Petition included the Department of Commerce, the Community Solar Garden Providers, Fresh Energy, the Office of Attorney General and Xcel.

A. The Department of Commerce Comments

In its February 27, 2019 Comments, the Minnesota Department of Commerce, Division of Energy Resources (Department) reviewed Xcel's R*C proposal. After providing a summary of Xcel's Petition and describing its main features, the Department made the following recommendations to the Commission:

- Approve Xcel's proposal to offer the R*C Program;
- Approve Xcel's proposal to modify the Windsource Tariff to eliminate minimum subscription periods, and to transition customers to the R*C Program;
- Require Xcel to file its initial final pricing for its R*C Program within 30 days of approval of its resource acquisitions for the Program;
- Approve Xcel's request to use a negative check-off process for amendments to its R*C Long Term Service Agreement; and
- Approve Xcel's proposed annual compliance reporting and require that Xcel be directed to provide updates on its initial acquisition of resources for the Program by April 1st each year.

B. Community Solar Garden Providers Comments

Sunshare, LLC, Sunrise Energy Ventures, LLC and Solarstone Partners, LLC (Community Solar Garden Providers or CSGP) jointly filed comments with respect to Xcel Energy's petition for approval of its R*C program.[49]

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[47] *Id.,* p. 30.

[48] *Id.*

[49] Comments of Sunshare, LLC, Sunrise Energy Ventures, LLC, and Solarstone Partners, LLC (CSG Providers), p. 1.

The CSGP expressed a concern that the approval of R*C program would provide Xcel, as a monopoly, with an anti-competitive advantage. The CSGP claimed that the R*C program would essentially give Xcel authority to construct one or more utility-scale community solar gardens (CSG), and to offer customers the opportunity to subscribe to a portion of the generation from that facility. The CSGP stated the R*C program raises anti-competitive concerns regarding economies of scale, geographic siting, and financing, marketing, and customer enrollment advantages.[50]

While R*C and Solar*Rewards Community solar products represent similar, yet distinct renewable services to a customer, the CSGP claimed that R*C program provides Xcel with a larger anti-competitive advantage in economies of scale, unlimited statewide sales potential not limited by artificial county boundaries, utility marketing via existing ratepayer funded communication channels, lower development and interconnection costs, and full access to information on grid interconnection points. Because these advantages are not available to the CSGP and other private providers, the CSGP argued that R*C represents an anti-competitive offering.[51]

The CSGP explained that both R*C and Solar*Rewards Community provide off-site solar that are made available to any customer with an electricity bill interested in solar energy. However, the CSGP asserted that the following differences provide Xcel with an anti-competitive advantages:[52]

1. Solar*Rewards Community has a limit on the size of CSG of 1 MW with no co-location and the R*C solar resource size is unlimited;
2. The cost to build a CSG for Solar*Rewards Community is approximately $2.00/Watt for 1MW system and the cost for R*C 50 MW system is approximately $1.00/Watt;
3. The financing for a Solar*Rewards Community CSG is customer-backed and the financing for R*C resources is utility-backed;
4. Customers for Solar*Rewards Community must sign 3 documents and it can take 20+ days to enroll, while R*C offers instant, 24/7 sign-up using My Account Profile;
5. R*C can take advantage of marketing through Xcel's key account management teams that are not available to third party developers for Solar*Rewards Community;
6. The CSG for Solar*Rewards Community must be geographically located in the same or adjacent county as the customer, thus drastically reducing options for the best site(s);
7. No single customer in Solar*Rewards Community may subscribe to more than 40 percent of any one CSG, creating artificial and unnecessarily complicated barriers; and
8. Other restrictions imposed on the CSGP and other third-party developers such as the protracted interconnection process replete with errors and delays that have yet to be

[50] *Id.,* pp. 1-2.

[51] *Id.,* p. 2.

[52] *Id.,* pp. 3-4.

fully resolved, while Xcel, as a monopoly, in not subject any of these restrictions with its proposed R*C program.

The CSGP also noted that under the CSG statute, Xcel is eligible to be a CSG provider. However, the CSGP emphasized that under the CSG statute, any CSG program approved by the commission must not apply different requirements to utility and nonutility CSG facilities.[53]

For the reasons stated above, the CSGP claimed that R*C will create an unfair playing field that will negatively affect the state's CSG market, and ultimately harm consumers. Accordingly, the CSGP requested that the Commission defer action on this matter and take time to study this matter through designation of a lead commissioner and/or referral to mediation overseen by a neutral arbiter for the purpose of developing a more complete record on which the Commission may make a decision in the public's interest. The CSGP submitted the following specific recommendations to ensure a more level playing field:[54]

- Require that any R*C capacity be subject to the requirements, rules and restrictions of the Community Solar Garden statute as the legislation contemplates.
- If Xcel wants to build utility scale solar gardens, the Commission should provide policy guidance to assist the legislature to likewise allow utility scale solar gardens to be built by other providers in the industry or otherwise rescind the one megawatt co-location rule adopted by the Commission in its August 6, 2014 order, and require Xcel's R*C proposal to be delayed pending legislative approval or pending further development of the record; *or*
- Deny the tariff offering if a level competitive playing field cannot be achieved.

C. Fresh Energy Comments

Fresh Energy supported Xcel's efforts to offer customers a renewable energy option on an ongoing basis by moving R*C from the pilot phase to a permanent program and recommended the Commission approve the program as filed, with the following small modifications:[55]

- Include a capacity credit for all customers in 2021, and
- Require filing of final pricing for the R*C Program within 30 days of approval of Xcel's resource acquisitions for the Program.

Fresh energy noted that Xcel proposed not to provide a capacity credit for customers under the Long-Term offer until there is a system need for capacity, which it expects in 2025. Fresh Energy recommended that Xcel maintain consistent treatment of customers under the R*C Month-to-Month Offer and Long Term Offer by including the capacity credit value in both tariffs starting in 2021, the year the proposed tariffs would take effect. Fresh Energy also expressed that the most straightforward approach would be to use the same methodology as was used in the

[53] *Id.,* p. 5.

[54] *Id.,* pp. 5-6.

[55] Fresh Energy Comments, p. 3.

pilot.[56] Fresh Energy also supported the Department's recommendation that Xcel be directed to file its final pricing for its R*C Program within 30 days of approval of its resource acquisitions for the Program.[57]

D. The OAG Comments

The Office of the Attorney General—Residential Utilities and Antitrust Division (OAG) stated that significant flaws in Xcel's proposal suggest that the most reasonable course of action may be to reject it entirely. However, the OAG also acknowledged there are concepts behind the proposed R*C program that may be in the public interest. Therefore, the OAG attempted to address flaws in Xcel's proposed R*C program and made the following recommendations to the Commission:[58]

- The R*C program shall be limited to month-to-month offers, without long-term contracts;
- Xcel shall not be allowed to recover the costs of unsubscribed portions of the R*C resources through the FCA;
- The monthly per kWh charge for the R*C program may never be lower than the monthly Fuel Charge;
- The neutrality adjustment shall be updated so that it continues to account for economic impacts and stranded costs;
- The neutrality adjustment shall be updated on a regular schedule based on the most currently available information; and
- Xcel shall investigate whether the neutrality adjustment should account for system benefits provided by non-R*C generation, and provide a report to the Commission within one year.

In addition, if the Commission permits long-term contract offers, the OAG recommended the following:[59]

- R*C contract terms may be no more than five years in length;
- The resource cost for R*C offerings must be similar for month-to-month and long-term offers, and Xcel may not exclusively allocate lower-cost resources to the long-term offers; and
- Long-term R*C contracts must provide that the neutrality adjustment may be periodically updated during the contract term.

The OAG noted that individual ratepayers and businesses are becoming more interested in renewable energy and that Minnesota has statutorily defined climate policy goals. Therefore,

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[56] *Id.,* p. 2.

[57] *Id.,* p. 3.

[58] The OAG-RUD Comments, pp. 20-21, Attachment 1.

[59] *Id.*

the OAG acknowledged that giving customers options to support those policies is important. For these reasons, the OAG recommended the changes above to the R*C program in order to mitigate its most significant problems in Xcel's R*C proposal.[60]

Without the recommended changes above, the OAG recommended rejection of the R*C program entirely. The OAG stated that rejecting the R*C would maintain the status quo (in which Xcel continues to add renewables and move towards its own carbon-free goal), protect non-participants from harm, and preserve the Commission's traditional authority over resource acquisitions. The OAG also emphasized that rejecting the R*C program would only mean that the Commission found that the R*C program for adding renewables is not in the public interest and would not mean that the Commission finds that renewables should not be added, particularly when it considers Xcel's next Integrated Resource Plan (IRP).[61]

The flaws in the Xcel's R*C proposal identified by the OAG and described below include the following:[62]

i. The R*C program would sidestep traditional resource planning and allow the Company to select and construct resources to provide different options for its customers, regardless of whether these resources are needed on the utility system;
ii. The R*C program places risks on non-participating customers;
iii. The company's attempts to protect non-participating customers is insufficient, because it relies on a relatively new and flawed neutrality adjustment; and
iv. Xcel would unreasonably direct the newest, cheapest renewable resources to RC customers while nonparticipants would pay the higher costs of older resources.

According to the OAG, the combined result of these flaws is that Xcel could substantially overbuild its system while overloading residents and small businesses with excessive risks and higher costs.[63]

1. Demonstration of Need for R*C Resources

The OAG argued that the R*C program would sidestep traditional resource planning and diverge significantly from the way that Xcel currently procures its resources. Under Xcel's proposal, the OAG stated that the Company would not need to demonstrate that new resources are needed or that the resources it intends to acquire are the best way to meet a need. The OAG emphasized that questions of need are analyzed in utility IRP and by ignoring these issues, Xcel could significantly overbuild its system and create excessive costs.[64]

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[60] *Id.*, p. 20.

[61] *Id.*

[62] *Id.*, p. 7.

[63] *Id.*

[64] *Id.*, pp. 6-7.

The OAG argued further that allowing Xcel to procure resources that are not needed to meet system demands, outside of the IRP or Certificate of need process, would be a major change from the current regulatory process. According to the OAG, Minnesota law and rule require Xcel to demonstrate that it has a need for energy and capacity resources before it can acquire them. The OAG stated that these decisions are typically made in IRP and certificate of need filings. [65]

The OAG stated further that these processes ensure that utilities do not acquire excessive resources to increase their rate base and raise profits. Under the IRP and Certificate of Need processes, the OAG explained that Xcel's proposals to acquire system resources would be scrutinized by the Commission, the Department, and other interveners to ensure they are necessary and reasonable. The OAG emphasized that these processes places an important check on Xcel and other utilities that have a natural incentive to overbuild their system to increase their rate base and raise profits from captive customers. The OAG further emphasized that this problem is enhanced by the fact that Xcel's proposal would shift any risk of overbuilding onto its non-participating customers.[66]

The OAG noted that Xcel proposed to procure 150 MW of new wind and 80 MW of new solar resources to serve the R*C program, rather than to serve demonstrated need for capacity or energy on Xcel's system. The OAG stated further that Xcel confirmed that it does not have a capacity or energy need: Xcel claimed it has excess capacity resources through at least 2024, and has excess energy resources through at least 2026.[67]

The OAG advised that the Commission should carefully consider how Xcel's broader R*C program would impact its resource planning, and Xcel should not be permitted to acquire new resources without first demonstrating that they are needed.[68]

2. R*C Risk to Non-Participants

The OAG also argued that Xcel's Petition would shift risk to non-participants. The OAG explained that Xcel's proposal would insulate the Company from risk because any R*C energy that is not purchased by subscribers would be paid for through the Fuel Charge by non-participants. The OAG explained that, in the event that Xcel develops wind and solar resources outside of the IRP process for the R*C program and portions of the program remain unsubscribed, Xcel would shift this risk to non-participants—i.e. those who choose not to subscribe or otherwise participate in this optional program. The OAG emphasized that this is unreasonable because Xcel is seeking to build resources without determining that they are necessary to meet its energy or capacity needs.[69]

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[65] *Id.*, pp. 7-9.

[66] *Id.*

[67] *Id.*, p. 8.

[68] *Id.*, p. 9.

[69] *Id*.

The OAG also argued that the R*C Long Term offer is not reasonable because this offer will also place undue risks on non-participating customers. According to the OAG, the Long Term offer unfairly provide financial benefits to some of its largest, most sophisticated customers and Xcel has unfairly prioritized a select group of large customers to receive these financial benefits.[70]

The OAG explained that customers who sign up for Xcel's Long Term offers limit their exposure to costs that are recovered through the Fuel Charge. In the event that the Fuel Charge rises above the R*C charge, participating customers in the R*C program would pay less than non-participants and all of Xcel's customers would have a financial incentive to transition to R*C and away from the existing system. The OAG argued that this would unfairly impact customers who attempt to join the program after it is fully subscribed, and this transition would further concentrate the costs of the Fuel Charge on non-participants. The OAG emphasized that this situation would create a positive feedback loop, whereby Xcel customers have an increasing incentive to move to R*C program. According to the OAG, such an incentive would create an unsustainable and unfair situation for customers who cannot agree to the long-term contracts that Xcel proposes. The OAG stressed that information already presented by Xcel suggested that it is likely that the R*C charge could be lower than the Fuel Charge in the near future.[71]

Additionally, the OAG stated that the Long Term offer gives a subset of sophisticated customers the ability to hedge against future fuel cost increases. While the month-to-month program that Xcel proposed would give all of its customers an opportunity to purchase all of their energy needs from renewable resources and meet their individual sustainability goals, the OAG argued that the Long Term offer would allow customers to receive renewable energy and hedge future costs. The OAG identified this as a significant flaw in the R*C proposal because allowing any of Xcel's customers to hedge their fuel costs over the long-term could unfairly impact the utility's other customers.[72]

The OAG also argued that Xcel is pre-selecting a certain group of large, sophisticated customers to receive financial benefits from its R*C program. The OAG noted that, at the time it publicly filed its Petition, Xcel stated that it had already executed MOUs with 10 of its largest customers. The OAG noted further that these MOUs appear to absorb a significant portion (perhaps all) of the new generation that Xcel would make available for its R*C Long Term offer. While other customers may want to receive these financial benefits and sign long-term contracts, the OAG stated that they will be limited by the amount of energy that is not purchased by the MOU signatories. The OAG argued that it is unfair to limit options to customers who were not made aware of Xcel's filing ahead of time, or were not given the opportunity to work with the utility before the filing was made public. The OAG asserted that providing this advantage to a select group of customers magnifies the hedging concerns explained above.[73]

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[70] *Id.*, p. 10.

[71] *Id.*, pp. 11-12. Information supporting the OAG's claim that the R*C charge is likely to be lower than the Fuel Charge was attached to OAG's Comments as Exhibit 3, Xcel's trade secret response to OAG Information Request 7, Attachment B, and Xcel's Petition, Attachment F-1.

[72] *Id*., p. 10.

[73] *Id*., pp. 12-13.

3. R*C Neutrality Adjustment is Flawed

The OAG claimed Xcel's proposed R*C program unreasonably relies on a neutrality adjustment that is calculated today in hopes of adequately protect non-participants until 2040. The OAG argued that the neutrality adjustment is flawed because it is a new and complex ratemaking tool that is still evolving and it is not reasonable to rely on the calculations for this adjustment to be accurate into the distant future. In addition, the OAG claimed that Xcel has made at least one change to the neutrality adjustment from its R*C pilot that is not reasonable.[74]

The OAG argued that if the neutrality adjustment is not calculated correctly, non-participants could be harmed by the R*C program and Long-term contracts would perpetuate any harm and inaccuracies for decades. For this reason, the OAG recommended limiting the R*C program to a month-to-month offering to allow the adjustment to be updated with new information. According to the OAG, it would not be reasonable to expect the neutrality adjustment to be calculated with accuracy and precision to adequately protect nonparticipants from harm for the full duration of the contract.[75]

The OAG noted that Xcel first introduced the neutrality adjustment in its R*C pilot program and Xcel has sought to modify the adjustment in this petition. The OAG explained that the neutrality adjustment in the current petition includes six components with ranging values for different product offerings, and differs from the Pilot with one deleted and three additional components than were included in the R*C pilot. According to the OAG, the three components that remained from Xcel's R*C Pilot also had significantly changed values. As such, the OAG emphasized that every component of the neutrality adjustment has either been removed, replaced, or had its value changed since it was first introduced in Xcel's R*C Pilot, and notably, the neutrality adjustment does not include a component to ensure that R*C customers contribute to the cost of Xcel's legacy renewables.[76]

The OAG stated that Xcel has made at least one unreasonable modification to the adjustment from the R*C Pilot. Specifically, the OAG argued that Xcel's proposal to remove the component that would protect non-participants from over-paying the costs of any stranded assets could result in non-participants unfairly paying for the costs of assets that may become obsolete or otherwise not used.[77]

The OAG explained that the R*C Pilot neutrality adjustment included a component for "Economic Impacts" to address the possibility that some of the resources of Xcel's system may become stranded assets. According to the OAG, this was an important feature of the neutrality adjustment because R*C subscribers are effectively leaving Xcel's "default" system, which includes generating assets that were built to support Xcel's projected load for decades. The

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[74] *Id.*, pp. 13-15.

[75] *Id.*, p. 14.

[76] *Id.*

[77] *Id.*, pp. 15-16.

OAG argued that it is important that customers who leave that system continue to contribute to these costs.[78]

In addition, the OAG maintained that the economic impacts component of the neutrality adjustment is important because procuring new resources for R*C customers could actually increase the potential for non-subscribers to be stuck paying for stranded resources, since Xcel proposed to procure new resources to supply energy to the R*C program outside of the normal resource acquisition process.[79]

The OAG explained that as Xcel procures newer, more efficient and less expensive generation resources, the older and more expensive resources on its system will become less cost effective. As a result, the OAG emphasized that Xcel will be serving fewer customers and less load on its "default" system as predominantly large customers leave the default system for the proposed R*C program. The OAG further explained that, if the R*C program continues to grow, some of Xcel's older resources may no longer be needed, or may not be economical to support the smaller pool of non-participants and this will further increase the risk that its other resources may become stranded assets.[80]

4. R*C and Least-Cost Resources

The OAG expressed concern that Xcel's proposed R*C program would unfairly direct lower-cost renewable resources to specific customers. The OAG claimed the Xcel would dedicate many of its newer, cheaper resources to the R*C program, giving R*C participants the benefit of these low-cost resources, while non-participants would pay for the older, more expensive resources. The OAG noted that Xcel would construct 230 MW of wind and solar resources for the R*C program, which will supplement the existing Windsource PPAs, as well as the new Moraine II PPA and new solar PPAs.[81]

The OAG also claimed that Xcel's dedication of the newest, lowest-cost resources to the R*C program and its long-term subscribers would lead to month-to-month subscribers paying for the more expensive resources dedicated to the program. The OAG argued that this is not a reasonable allocation of Xcel's renewable resources.[82]

The OAG explained that Xcel proposed to direct the newest and lowest cost resources within the R*C program to its long-term subscribers, providing financial benefits to a handful of large R*C customers, most of whom Xcel worked with ahead of its public filing. The OAG noted that Xcel plans to dedicate its "Legacy Windsource" PPA's exclusively to its month-to-month subscribers, and the cost of these resources are more than twice the cost of the new wind dedicated to the month-to-month customers.   In addition, the OAG explained that the wind

[78] *Id*., p. 16.

[79] *Id*.

[80] *Id*., pp. 16-17.

[81] *Id*., pp. 17-18.

[82] *Id*., p. 17.

resources that Xcel intends to construct for the long-term subscribers are cheaper than any of the wind it would dedicate to its month-to-month customer. As a result, the OAG stressed that Xcel's month-to-month R*C customers would pay substantially more for renewable resources than its R*C long-term customers. The OAG provided the following table for comparison purposes:[83]

2021 Blended Resource Cost (¢/kWh)

Subscription	Resource Cost	Capacity Credit	Total Cost
Month to Month	3.403	0.538	2.865
Standard Long Term	2.175	0.000	2.175
High Off-Peak Long-Term	1.952	0.000	1.952

The OAG argued that it is not reasonable to dedicate the benefit of cheaper, newer resources to a handful of large customers that can commit to long-term contracts.[84]

VI. Parties Reply Comments

The Department, Fresh Energy and Xcel filed Reply Comments.

A. The Department of Commerce Reply Comments

The Department provides the following response to concerns raised by CSGP, Fresh Energy and the OAG.

1. The Department's Response to CSGP Comments.

In response to the CSG Providers concern that Xcel's proposal would result in anti-competitive conditions for the CSG industry because third party developers are subject to size constraints and other conditions, the Department stated that a voluntary green pricing program that may result in lower bills for participants is not of concern.[85]

The Department reasoned from its legal interpretation Minn. Stat. §216B.169, Subd. 2(b)(1), which requires that rates for a green pricing program must "[r]eflect 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." The Department understood this statutory provision to mean that the R*C could only charge customers for the lower cost of its energy.[86]

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[83] *Id.*, pp. 18-19.

[84] *Id.*, p. 19.

[85] The Department of Commerce Reply Comments, p. 3.

[86] *Id.*

2. The Department's Response to Fresh Energy Comments

In response to Fresh Energy's recommendation that the Company should 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, the Department stated that Xcel's most recent IRP demonstrated no capacity need until 2025. Therefore, the Department recommended that the Commission accept Xcel's capacity credit methodology.[87]

3. The Department's Response to the OAG's Comments

In response to the OAG's concern that Xcel has not demonstrated a need through the IRP process, the Department stated that, 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 Department noted that the Commission stated in the IRP order that Xcel "…may pursue additional, cost-effective solar resources if it is in the best interests of its customers."[88]

The Department also noted that additional wind and solar acquired for R*C will offset other acquisitions when Xcel files a new IRP later this summer. Additionally, The Department stated 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 Department concluded that the acquisition of additional wind and solar for R*C is not of concern.[89]

In response to the OAG's concern that Xcel proposed to recover the cost of any unsubscribed energy through the fuel clause from nonparticipating customers, the Department assured that the Commission need not be concerned with the potential for impacting non-participants, since wind and solar are cheap resources.[90]

In response to the OAG's concerns with the neutrality adjustment proposed by Xcel as a means of limiting the rate impact to non-participating customers, the Department agreed with the OAG that the neutrality charge should be subject to revision for both the month-to-month and long-term offerings.[91]

Finally, in response to the OAG's concern 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, the Department

[87] *Id.*

[88] *Id.,* pp. 1-2.

[89] *Id.,* p. 2

[90] *Id.*

[91] *Id.*

concluded that the Commission will have ample opportunity to review the program and evaluate its impact on Xcel customers prior to permitting any further expansion.[92]

In its Reply Comments, the Department recommended that the Commission approve Xcel's proposed R*C Program with a modification to include the statement, "the neutrality charge is subject to change upon Commission order", in its tariffs for the Long-term R*C Program.[93]

B. Fresh Energy Reply Comments

In its Reply Comments, Fresh Energy provided supplemental information supporting the concern it expressed in its Comments around the proposed capacity credit valuation. Specifically, Fresh Energy described Xcel's proposed capacity credit methodology, which included a new line called "percent retained" that acts as a discount factor for the calculated capacity value. According to Fresh Energy, Xcel has not used this capacity discount approach previously in either Windsource or the R*C Pilot for the calculation of capacity credits. Fresh Energy also noted that this new component is not discussed in Xcel's petition, although Fresh Energy stated it appears intended to reflect anticipated future capacity needs. Fresh Energy continued to recommend providing all R*C participating customers with the calculated capacity value, rather than discounting based on Xcel's projection of its capacity position.[94] Fresh Energy continued to recommend the Commission to approve the program as filed, with the following modifications:[95]

- Provide a capacity credit for both Month-to-Month and Long Term Offer customers beginning in 2021 and without a discount factor ("percent retained"), and
- Require filing of final pricing for the R*C Program within 30 days of approval of Xcel's resource acquisitions for the Program.

In response to the CSGP concern that the R*C program would allow Xcel to provide a product similar to Solar*Reward Community without the limitations established for the CSG program, Fresh Energy stated that R*C and Solar*Rewards Community are different products that are both important for providing customer options and advancing clean energy.[96]

In response to the OAG's concern about changes to the neutrality adjustment, Fresh Energy stated it supported getting the neutrality adjustment methodology and components right and it would support continued analysis and possible future revision if warranted.[97]

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92 *Id.*

93 *Id.*, p. 4.

94 Fresh Energy Reply Comments, p. 1.

95 *Id.,* p. 3.

96 *Id.,* p. 2.

97 *Id.*

In response to the OAG's concern about the ability to shift R*C resource costs to the system should R*C be undersubscribed, Fresh Energy noted that the new resources proposed for the R*C program may already be fully or near-fully subscribed, given the 10 memoranda of understanding Xcel has secured for customers seeking to subscribe to the Long Term Offer at about 550 GWh per year. Given these circumstances, Fresh Energy stated it seems very unlikely that there will be a lack of subscribers and therefore, very unlikely that material harm would result from undersubscription due to lack of subscribers.[98]

In response to the OAG's concern about the addition of new resources outside of the IRP process, Fresh Energy agreed it is preferable to authorize new resources during the IRP process. However, Fresh supported the review and approval of Xcel's R*C proposal, given the scale of the proposed program as a piece of Xcel's system, the fact that this type of offering is encouraged by State law, and that Xcel is responding to customer demand.[99]

C. Xcel Reply Comments

In its Reply Comments, Xcel agreed with the recommendations of the Department and Fresh Energy to file final pricing for the program within 30 days of approval of all resource acquisitions and responded to concerns raised by the CSGP, Fresh Energy and the OAG.

1. Xcel's Response to CSGP Comments

In Response to the CSGP concerns about similarities between the Company's Solar*Rewards Community and R*C programs, Xcel stressed that Windsource has been an approved offering since 2003 and that the Commission has already approved the structure of R*C Pilot program. Xcel stated that the Commission found that the structure of R*C Pilot was not a barrier to fair competition with solar developers under Solar*Rewards Community. Xcel noted that the Commission's Order approving the R*C pilot stated that Xcel was "…expressly authorized by statute to offer one or more options to customers allowing the customer to secure renewable or high-efficiency electricity." Xcel noted further that the Commission explicitly stated in its Order that it was "…not persuaded that the public interest requires a determination that programs are impermissible for market structure or competitive reasons."[100]

Xcel further provided the following distinctions between R*C and Solar*Rewards Community:[101]

1. R*C is governed under Minn. Stat. § 216B.169, and the Commission has already found the pilot program complies with the relevant statute;

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[98] *Id.*

[99] *Id.*

[100] Xcel Reply Comments, p. 7

[101] *Id.,* pp. 7-8.

2. Under Solar*Rewards Community, subscribers sell solar output and RECs to the Company and its ratepayers and R*C customers purchase output from renewable resources (both wind and solar);
3. Subscribers to Solar*Rewards Community receive a bill credit and take system fuel, and R*C customers pay a surcharge and receive energy bundled with its renewable attributes; and
4. A significant portion of all customers' fuel costs fund subscriber bill credits under Solar*Rewards Community. Under R*C, the neutrality adjustment protects non-participating customers from program costs by crediting the fuel clause.

2. Xcel's Response to Fresh Energy Comments

In response to Fresh Energy's recommendation that Xcel provide a full capacity credit for both Month-to-Month and Long Term offer customers beginning in 2021, Xcel explained that the Company proposed a capacity credit based on value to the system where the capacity need begins in 2025 and incorporating a capacity credit prior to system need would cause non-participants' costs to increase as a result of this program.[102]

2. Xcel's Response to the OAG Comments

Xcel's reply comments also addressed the concerns and recommendations of the OAG. In response to the OAG recommendation that the monthly per kWh charge for the R*C program must be equal to or greater than the monthly Fuel Charge, Xcel argued that this would violate Minn. Stat. § 216B.169, which provides that renewable rates must "…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." Xcel's responded to other concerns of the OAG as described below.

a. Demonstration of Need for R*C Resources

In response to the OAG's concern for the Company acquiring resources outside of an IRP process to specifically serve the R*C program, Xcel stated that the Commission maintains the same oversight and approval authority over the forthcoming resource contracts as it does with all other resource acquisitions. Xcel also argued that the Commission approved the Company's R*C pilot program, finding that the structure proposed by the Company was consistent with the terms of Minn. Stat. § 216B.169. [103]

Xcel stated that its plan to acquire new wind and solar resources to serve the R*C program and is fully consistent with the law and with regulatory precedents for the following reasons:[104]

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[102] *Id.,* p. 5.

[103] *Id.,* pp. 2-3.

[104] *Id.*

1. Minn. Stat. § 216B.169 does not require the Company to demonstrate that the system as a whole has a resource need, and instead contemplates resource acquisitions to fulfill the voluntary demand of participating customers;
2. The Windsource program was approved under Minn. Statutes and the resources that supply this program are now nearing end of life;
3. The R*C pilot is currently closed to new takers, and it is important to add resources in order to maintain the availability of an all-renewable option for customers; and
4. Any resources identified to supply R*C will be fully subject to Commission review and approval.

b. R*C Risk to Non-Participants

In response to the OAG's concern that any R*C energy that is not purchased by subscribers would be recovered through the Fuel Charge and paid for by non-participants, Xcel stated that this is the same cost recovery treatment that was approved in both Windsource and in the R*C pilot. According to Xcel, this proposed treatment is reasonable, because it has taken care to minimize the potential for undersubscription, Xcel's proposed neutrality charge has reciprocal benefits for non-participants and it would be unreasonable for nonparticipating customers to be afforded energy at no cost.[105] In addition, Xcel stated that the Long Term offer would minimize the risk of undersubscription of the resources.[106]

In response to the OAG's allegation that it is pre-selecting a group of large, sophisticated customers to receive financial benefits from its R*C program, Xcel explained that it is relying on its preliminary commitments from commercial customers, as well as its growing waiting list of residential customers, to make an informed estimate about the quantity of resources to acquire for the program. Xcel maintained that this process is not limited to "large, sophisticated customers" and also includes the Company's waitlist of residential customers.[107]

c. R*C Neutrality Adjustment is Flawed

Xcel maintained that the neutrality adjustment is set at a reasonable level to mitigate non-participants impacts. In response to the OAG's concern over the modifications in the neutrality adjustment for R*C expansion, Xcel explained that it has gained more experience with renewables and learned more about integration and balancing costs, since the approval of the Pilot. For these reasons, Xcel claimed it set the neutrality adjustment nearly 50 percent higher than the Pilot neutrality adjustment amount.[108]

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[105] *Id.,* p. 6.

[106] *Id.,* p. 4.

[107] *Id.*

[108] *Id.,* p. 5.

d. R*C and Least-Cost Resources

In response to the OAG's that the rate for month-to-month subscribers is likely to be higher than the long-term offer, Xcel explained that it designed the Long Term offer for customers with high off-peak usage patterns. Xcel explained further that this Long-Term offer will be supported by a resource mix with a higher wind to solar ratio, reflecting a closer match of the load profile of the customer to the generation profile of the resource.[109]

VII. Staff Analysis

In making a decision on Xcel's Petition to expand the R*C program, it is important for the Commission to consider whether the experience and information gained from Xcel's R*C Pilot program is sufficient to merit expanding the R*C Pilot Program into a full-time, permanent product offering, with additional long-term service offerings.

In making its determination, Staff suggests that Commission consider the following three points for context:

1. The R*C Pilot program timeline;
2. Recent changes in the price for renewable energy generation; and
3. Xcel's stated goal to be 100% carbon free by 2050.

A. Decision Context

1. The R*C Pilot Program Timeline

When considering whether to approve Xcel's Petition to expand its R*C Pilot program into a full time permanent offering, staff advises that the Commission consider whether, with the benefit of a single required R*C pilot annual report filed outside the comment period in this docket, it has accumulated enough experience, information and data necessary to conclude that approving Xcel's Petition is in the public interest.

In the February 27, 2017 Order Approving R*C Pilot Program and Requiring Filing, the Commission approved Xcel's "proposed pilot projects under Minn. Stat. § 216B.169, subject to annual reporting requirements…" and "with participation limited by the approved capacity limits,"- 50 MW of wind from the Odell Wind Farm and 25 MW of solar from the North Star Solar Project. [110]

The Commission chose not to increase the size of the R*C pilot 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."[111]

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[109] *Id.,* p. 6.

[110] Docket No. E002/M-15-985, *In the Matter of Petition for Approval of a Renewable*Connect Pilot Program,* Order Approving Pilot Programs and Requiring Filings, February 27, 2017, p. 7.

[111] *Id.*

The Commission approved the pilot because it was satisfied that the R*C Pilot would "…reasonably satisfy the requirements of Minn. Stat. § 216B.169—with the understanding that the program… will be subject to annual reporting and [is] limited in size to the resources dedicated in this order." [112]

Despite concerns of parties and the Commission over the expansions of the program, the impact of the program on non-participants and the uncertainty of the neutrality charge, the Commission stated in its Order that approving R*C as a pilot program "will allow the opportunity for more rigorous analysis of the assumptions and values that go into the rate calculations, informed by experience and data."[113]

Staff highlights the following timeline for the Commission:

Date	Action
February 27, 2017	Commission Order Approving R*C Pilot Program and Requiring Filings,
September 21, 2017	Xcel Petition for Approval of Revisions to R*C Pilot Program
February 21, 2018	Commission Order Approving Tariff Revisions with Modifications
July 3, 2018	Xcel Informational letter
January 7, 2019	Xcel Petition to Expand R*C Pilot Program
April 1, 2019	Xcel Compliance Filing – First R*C Pilot Program Annual Report.

Staff further notes that there is no harm to continuing R*C as a pilot. There is no agreed upon definition of the term "pilot" or "full-time permanent offering" for service offerings approved by the Commission. Some pilots have continued for many years; other permanent offerings have been terminated by the Commission. Should the Commission wish to make changes to the pilot, it can do so without deciding that the program should become permanent. It is also worth noting that in other pilots approved by the Commission, the Commission set a period of four years before the Commission would decide to either extend the pilot or turn it into a permanent offering.

2. Recent Changes in the Price for Renewable Energy Generation

Second, Staff suggests that the Commission consider its decision on the approval of Xcel's Petition under Minn. Stat. § 216B.169 in the context of recent changed circumstances in the price of renewable energy since Minn. Stat. § 216B.169 (Green Pricing Statute) came into effect. It was, at least in part, due to these circumstances that the Commission limited the size of the R*C Pilot program to specific generation capacity of existing resources and required the annual reports for the accumulation of experience, information and data.

In particular, Staff notes that green pricing programs were designed to offer premium priced electricity to customers and were not designed to provide renewable energy at a price discount

[112] *Id.*

[113] *Id.*

to specific customers. When the Green Pricing Statute was first written, it was assumed that sources for renewable energy would not be least-cost. At the time it was enacted, introducing renewable generation onto Xcel's system required RES standards and increased costs to all rate-payers. For any goals to obtain renewables above the RES standards, customers were required to pay a premium above what they would otherwise pay if they had not migrated to a green pricing program, such as Windsource.

In other words, when the Green Pricing Statute came into effect, Renewable Energy was much more expensive than energy generated from fossil fuels. The Green Pricing Statute was meant to offer a voluntary incentive for the development of renewable energy while protecting rate-payer by ensuring that prices were reflective of cost. When these incentives were written into law in Minnesota, the assumption was that there were customers who were willing to pay a premium for renewable generation, either for the value of RECs, marketing purposes, or to reflect specific consumer preferences. Now that wind and solar are being chosen as the cheapest and least cost resources for electric generation over fossil fuels, it may be necessary to reevaluate green pricing programs under these recent changed circumstances.

The Commission approved Xcel's proposed R*C Pilot program and Xcel filed its Petition to expand the R*C program pursuant to Minn. Stat. § 216B.169 subd. 2, which states the following, in part:

> (a) A utility ***may*** offer its customers one or more options that allow a customer to determine that a certain amount of the electricity generated or purchased on behalf of the customer is renewable energy or energy generated by high-efficiency, low-emissions, distributed generation such as fuel cells and microturbines fueled by a renewable fuel. [emphasis added]

Staff notes that when Minn. Stat. § 216B.169 was enacted, electric utilities were required to offer customers the option of buying a certain amount of electricity generated or purchased from renewable energy. Minn. Stat. § 216B.169 was later amended to allow but not require that a utility offer its customers an option to purchase electricity generated by renewable energy in response to increasing amounts of renewable energy generation and decreasing costs of this generation.

Minn. Stat. § 216B.169 subd. 2 also described that rates must reflect cost:

> (b) 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

Staff notes that while the Green Pricing Statute states what rates must be, it is ambiguous on the meaning of the word "reflect." If the meaning of "reflect" in Minn. Stat. § 216B.169, subd.

2(b)(1) is interpreted to have the same meaning as "equal to," then the Commission would be required to either: (1) set rates at the amount of this difference, whether it is a price premium for renewable generation or a price discount to participating customers, or (2) deny the approval of the entire green pricing program if it determines that it violates Minn. Stat. § 216B.03, which requires that:

> [e]very rate made, demanded, or received by any public utility, or by any two or more public utilities jointly, shall be just and reasonable. Rates shall not be unreasonably preferential, unreasonably prejudicial, or discriminatory, but shall be sufficient, equitable, and consistent in application to a class of consumers.

However, "reflect" may also have a more imprecise meaning than "equal to," to allow the Commission flexibility in determining reasonable rates for green pricing programs. In this case, given that the Green Pricing Statute was enacted during circumstances when the price for renewable generation was assumed to be greater than fossil fuel generation (and therefore, greater also than the utility's mix of renewable and nonrenewable generation) and the purpose of Minn. Stat. § 216B.169, subd. 2(b)(1) was to protect nonparticipating ratepayers from having to pick up the costs for voluntary green pricing programs, it may be a reasonable to interpret "reflect" to allow for the Commission to protect nonparticipating customers in the event that this difference reflects a discounted price rather than a premium price. Under this interpretation, the Commission may determine that setting the rates for the R*C program at a level that is at least equal to or greater than Fuel Charge may be an entirely reasonable interpretation of Minn. Stat. § 216B. subd. 2.

3. Xcel's Policy Goal to be 100% Carbon Free by 2050

Finally, in making its decision on the approval of Xcel's Petition, Staff advises that the Commission consider its decision in the context of Xcel's policy to be 100% carbon free by 2050. While Xcel may list the expansion of R*C as an important component to achieving its goal, Staff suggests that the Commission consider market incentives that are already in place for Xcel to reach its goal, without negatively impacting a portion of rate-payers who are unable to participate in a green pricing program.

As Xcel adds more wind to its system in the intervening years, this least cost renewable generation will continue to drive down the Fuel Charge for all Xcel rate payers. In evaluating Xcel's Petition to expand the R*C program, the Commission will need to determine whether it is in the public interest to dedicate these newer and incremental least cost renewable resources to a select group of specific customers at a price discount.

Consider the following relevant exchange at a recent Minnesota Public Utilities Hearing between Commissioner Tuma and Xcel attorney Ryan Long:[114]

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[114] Docket No. 19-39, *In the Matter of the Petition by Northern States Power Company, d.b.a. Xcel Energy, for Approval of Contracts and Ratemaking Treatment for Provision of Electric Service to Google's Data Center Project*, PUC Agenda Meeting, May 14, 2019, Webcast, http://minnesotapuc.granicus.com/player/clip/930?view_id=2 , 1:27:57 – 1:29:25.

Commissioner Tuma: Mr. Long, I just want to make it very clear. I think it was very helpful, one of the buffers you built into this very good contract is that any future, after this agreement, new incremental renewable clean energy, is available. And you have a conveyor belt of them coming in front of us, because your CEO has told us they have this *Steel energy policy*[115] going forward. We've approved that, we think it's great. So, you really will have this conveyor belt of projects that will be in front of us, for the near future.

Ryan Long: Madam Chair, Commissioner Tuma. That is certainly the way we looked at this, when we put this together. That this sourcing plan, so closely aligned with our carbon reduction goals, that, honestly, from my perspective, the sourcing plan required us to go out get some resources on the front end of this, that when we looked at them, reduced our customer costs through the FCA, and kind of just continue on the path we are on right now. You know, I don't know exactly what our next resource plan is going to look like, but I don't need another increment for this customer for several years. So, I got a lot of time to let that conveyor belt run and get a project that fits within the resource plan for our customers that's also going to be used to meet this customer's needs.

Commissioner Tuma: This establishes a very good confirmation of what we've been doing, what you have been doing, going forward. These are cost-effective, this is not just because it is green and it is cool. It is cost effective and that is what is so great about this initial part of it…

Ryan Long: [expressed affirmation]

This discussion was centered on an Xcel Petition for approval of contracts and ratemaking treatment for provisions of electric service to Googles Data Center project. However, it is also insightful for understanding Xcel's policy goals going forward and its resource plans for the future.

For the Commission's decision in the current docket, it may be helpful to use the analogy of the conveyor belt of renewable resources coming onto Xcel's system over the next 30 years for the purpose of Xcel meeting its carbon reduction goals, while reducing costs for all of its customers. Essentially, the Commission's decision on Xcel's Petition to expand the R*C Pilot program to a full-time permanent product offering comes down to a choice for whether to allow Xcel to seek cost recovery for these cost effective resources on the conveyor belt through the per kWh Fuel Charge or FCA, thus reducing costs for all Xcel customers subject to the FCA; or to allow Xcel to seek cost recovery for all, or a portion of, these cost-effective resources through the per kWh

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[115] *Steel Energy Policy* – referring to Xcel's "Steel for Fuel," policy for swapping out fossil generation for fuel-free wind and solar. https://www.utilitydive.com/news/steel-for-fuel-xcel-ceo-ben-fowke-on-his-utilitys-move-to-a-renewable-c/446791/

R*C charge, which may reduce costs for only a specific group of Xcel customers – R*C participants.

Xcel's Petition to expand the R*C Pilot program into a full-time permanent product offering requested that the Commission make the following changes to Xcel's green pricing programs:

1) Discontinuation of Windsource;
2) The migration of Windsource resources and customers to a R*C month-to-month offer and end the R*C Pilot program;
3) The introduction of new service options under a permanent program; and
4) The introduction of a service option for high off-peak usage customers.

Staff discusses each of the proposals below in turn.

B. Should the Commission Discontinue the Windsource Program?

Xcel's Windsource Program is the largest utility green pricing offering in Minnesota and has been available to Xcel customers since 2003. According to Xcel, the Windsource program today faces the following challenges going forward:[116]

1) Windsource operates under an administratively established price from an earlier generation of the wind market;
2) Several of the resources that supply energy to Windsource customers are expiring in the next few years;
3) Customers subscribing to Windsource have expressed a desire to be served by solar in addition to wind; and
4) Customers are confused about the presence of more than one brand of "green tariff" in the Company's portfolio and are unclear about the distinctions between Windsource and R*C.

Despite these challenges, Xcel stressed that the WIndsource program continues to grow and remains an attractive option for residential and special event customers. Before addressing Xcel's list of four challenges, Staff provides the following brief summary of Xcel's current Windsource program.

According to Xcel's May 1, 2019 Windsource Report, the number of participants grew by 6.4 percent and Customer energy purchases increased by approximately 4.4 percent over the previous reporting period. In addition, Xcel explained that increased subscription requests have greatly increased Xcel's forecasted sales for the next reporting period.[117]

Xcel reported that 57,057 customers participated in the Windsource program from April 1, 2018 – March 31, 2019, representing a 6.4 percent increase over the previous period ending

[116] Xcel Energy Petition – Initial Filing, p. 2.

[117] Docket No. E002/M-01-1479, Compliance Report and Semi-Annual Tracker Account Report Voluntary Renewable Energy Rider (Windsource), May 1, 2019, pp. 1-2

March 31, 2018. As a result of the increase in participants, residential wind energy sales grew by 8.7 percent. Xcel also expected residential wind energy purchase participation to continue to gradually increase in the next year. Xcel stated that special event sales also increased by 6.5 percent compared to the previous reporting period.[118]

Although Sales for residential and special events increased, Xcel stated that Commercial and Industrial sales in the Windsource program decreased by 7.5 percent in the most recent reporting period. Despite the decrease in C&I sales, as stated above, the Windsource Program saw an increase in total sales of approximately 4.4% from the last reporting period.[119]

For the upcoming (April 2019 - March 2020) reporting period, Xcel forecasted wind sales of approximately 384,730,422 kWh, which Xcel stated represents a 101.6 percent increase from the current reporting period for Windsource. According to Xcel, this increase is due to increased subscription requests in March 2019 and the increase would allow for the use of 100 percent of the Moraine II resource for the program in the next reporting period.[120]

Xcel explained that it currently purchases wind energy from 20 wind projects certified for Windsource by the Minnesota Department of Commerce, Division of Energy Resources. The projects consist of a total of 64 wind turbines with a total nameplate wind capacity of 89.3 MW. Xcel explained further that the resources that supply the Windsource Program have historically been certified by Green-e Energy, an independent consumer protection program administered by the non-profit Center for Resource Solutions (CRS). CRS limits certification to resources that are no more than 15 years old and several of the Windsource will reach their 15 year eligibility lifetime within the next year. Xcel stated that it submitted a request to CRS to extend certification of these resources beyond their first 15 years and a decision on the request is likely within the next three months.[121]

The largest Windsource Resource on Xcel's system is Moraine II. Moraine Wind II is a 49.5 MW project, consisting 33 wind turbines and associated equipment. The entire output of Moraine II is not required to fulfill the requirements of Windsource customers. Xcel explained that the cost allocation for Moraine II allows adjustment of the percent of the cost through the Windsource Rider and any "excess energy" to non-Windsource Program customers, and the recovery of those energy costs through the FCA.[122]

[118] *Id.*, p. 7.

[119] *Id.*

[120] *Id.*

[121] *Id.*, p. 5.

[122] Docket No. E002/M-19-58. *In the Matter of Northern States Power Company d/b/a Xcel Energy's (Xcel) Petition for Approval of Amendment to its Power Purchase Agreement (PPA) with Moraine Wind II, LLC (Moraine II)* Xcel Initial Filing, March 25, 2019, p. 5.

In January of 2019, the Company petitioned for approval of an amendment to the Moraine II PPA, and proposed the continuation of a flexible approach to cost recovery for the project. [123] Xcel sought approval of an amendment to the Moraine II PPA in order to extend its term for ten years and adjust the pricing for this extension period.[124] Xcel explained it had negotiated a 10-year extension to the current Moraine II PPA at pricing at or near current market prices. According to Xcel, an increasing amount of Moraine II can be used to support the Windsource program as the smaller PPAs expire over time and as customer demand for Windsource grows. Xcel explained further that as customer interest necessitates, the Company will request approval from the Commission that resources be added or allocated to this offering. [125]

The Commission's Order in Docket No. E002/M-19-58 allowed Xcel to:[126]

1. Use the wind energy from Moraine II to meet future renewable energy requirements of Windsource Program customers and Renewable*Connect Program (if approved by the Commission);
2. Use Moraine II Wind energy under the same cost allocation method as approved by the Commission in its April 24, 2009 Order in Docket No. E002/M-08-1487; and
3. Recover Moraine II energy costs through the appropriate Windsource Program rider, or its successor (the Renewable*Connect Program Rider), and the Fuel Clause Rider based on the allocation of such energy to each rider, respectively.

Staff does not oppose Xcel's request to discontinue the Windsource program as a green price offering. As referenced above, Minn. Stat. § 216B.169 does not require the Xcel to offer a green pricing program. Minn. Stat. § 216B.169 states that a "utility ***may*** offer its customers one or more options…" as green pricing programs.

In addition, as outlined in section A of Staff analysis above, given the recent changed circumstances in regard to the price of renewable resources, the Commission may wish to reconsider the usefulness for offerings such as WIndsource and whether green pricing programs are still in the public interest.

However, Staff does not believe that challenges to the Windsource program that Xcel lists above necessitate either the discontinuance of the Windsource program or the migration of Windsource customers to an expanded full-time permanent R*C program offering.

The first challenge to the future of the Windsource program was that Windsource operates under an administratively established price from an earlier generation of the wind market. However, in Docket No. 19-58, Xcel petitioned the Commission to approve an amendment to the Moraine II PPA in order to extend its term for ten years and adjust the pricing for the 10-

[123] *Id.,* p. 9.

[124] *Id.,* p. 4.

[125] Xcel Energy Petition – Initial Filing, p. 20.

[126] Docket No. E002/M-19-58, Commission Order, March 25, 2019, p. 1.

year extension period to at or near current market prices. In its March 25th, 2019 Order, the Commission approved the amended Moraine II PPA. The Windsource price should be adjusted to reflect the market price for wind accordingly, as represented by Xcel in its Petition for approval of its amended PPA.

The second challenge to the future of the Windsource program listed by Xcel was several of the resources that supply energy to Windsource customers are expiring in the next few years. While this is true, as described by Xcel in its latest Windsource report, Xcel is in the process of extending the certification for these expiring resources. In addition, Xcel has recently amended the Moraine II PPA extending its term another 10 years. According to Xcel, an increasing amount of Moraine II can be used to support the Windsource program as the smaller PPAs expire over time and as customer demand for Windsource grows. Finally, Xcel explained that as customer interest necessitates, the Company will request approval from the Commission that resources be added or allocated to this offering.

The third challenge listed by Xcel is that customers subscribing to Windsource have expressed a desire to be served by solar in addition to wind. Staff does not believe this is a significant challenge to the Windsource program. As stated by Xcel, as customer interest necessitates, Xcel may request approval from the Commission that resources be added or allocated to this offering. Staff is not aware of any statutory, or other regulatory provisions, that may prevent Xcel from requesting solar resources be added to the Windsource program. In addition, Xcel may direct customers with a preference for solar offering to its Solar*Rewards and Solar*Rewards Community program.

The final challenge to the future of the Windsource program listed by Xcel is that customers are confused about the presence of more than one brand of "green tariff" in the Company's portfolio and are unclear about the distinctions between Windsource and the R*C Pilot program. While Staff is sympathetic to Customer confusion, Staff does not believe that the only solution to this confusion is to combine these two programs into one full-time permanent offering. The R*C Pilot program is distinct from the Windsource program, because it is a pilot program with participation limited by the Commission approved capacity limits with the purpose of collecting experience, information and data for analysis of the Pilot program. Any confusion may be resolved through Xcel marketing and informational materials. Staff also notes that the confusion does not appear to negatively influence the popularity of the Windsource program among Residential customers, as indicated by the forecasted growth of the program.

C. Should the Commission Approve the Migration of Windsource Customers to Xcel's R*C Month-to-Month Offer and End the R*C Pilot Program?

In its R*C Pilot program Order, the Commission approved Xcel's "proposed pilot projects under Minn. Stat. § 216B.169, subject to annual reporting requirements…" and "with participation limited by the approved capacity limits."[127] The Commission required annual reporting and

[127] Docket No. E002/M-15-985, *In the Matter of Petition for Approval of a Renewable*Connect Pilot Program,* Order Approving Pilot Programs and Requiring Filings, February 27, 2017, p. 7.

limited the size of the R*C Pilot program to "allow the opportunity for more rigorous analysis of the assumptions and values that go into the rate calculations, informed by experience and data."[128]

The purpose of the R*C Pilot program was to provide the Commission with information and data that was made readily available through annual reports and through the experience gained during the Pilot program. Before approving Xcel's proposal to end the R*C Pilot program, it will be necessary for the Commission to determine that the R*C Pilot program served its purpose of informing the Commission through rigorous analysis of the assumptions and values that go into the rate calculations. Staff suggests that the Commission consider the R*C Pilot timeline given in section A of the Staff analysis in making this determination.

Staff notes that the R*C Pilot program Annual Reports were intended to provide significant experience, information and data for analysis of the Pilot program. Without informed decision making, educated by rigorous analysis of the R*C Pilot program annual reports, Staff agrees with the OAG that the risk of harm to non-participants may be too great. If the Commission determines it does not have enough information, experience and data to make an informed decision, it may choose to deny Xcel's request to discontinue the WIndsource Program, deny Xcel's request to migrate Windsource customers to an expanded permanment full-time R*C offering and deny Xcel's request to end the R*C Pilot program. Alternatively, the Commission may need to implement significant safeguards to protect non-participants before approving Xcel's Petition.

If the Commission chooses to protect non-participants with safeguards, Staff believes the following OAG recommendations are reasonable for protecting non-participant rate-payers: 1) limit the R*C program to month-to-month offers, without long-term contracts; 2) limit the monthly per kWh charge for the R*C program to an amount equal or greater the monthly Fuel Charge; 3) require the neutrality adjustment to be updated so that it continues to account for economic impacts and stranded costs; and 4) require the neutrality adjustment to be updated on a regular schedule based on the most currently available information.

In particular, Staff notes that limiting the monthly per kWh charge to an amount equal to or greater than the monthly Fuel Charge may provide sufficient protection by itself to safeguard non-participants.

D. Should the Commission Approve Xcel's Long Term Standard and High Off-Peak Offer?

Staff notes that the analysis for the section C above applies to both Long Term offers proposed by Xcel. For the Commission to make an informed decision, it would need to be assured it has been sufficiently informed by the R*C Pilot program. If the Commission determines it has enough experience, information and data to make an informed decision it may choose to approve Xcel's Long Term Offerings. Staff agrees with the OAG that the Long Term offers come with greater risk to non-participants than R*C month-to-month offer and the High Off-Peak Offer brings even greater risk to non-participants than the proposed Long Term Standard offer.

[128] *Id.*

Similar to the Xcel's R*C Month-to-Month proposal, If the Commission determines it does not have enough experience, information and data for the rigorous analysis to make an informed decision, Staff advises that the Commission either deny Xcel's proposal to introduce new R*C Long Term offers or implement safeguards to protect non-participants. If the Commission chooses to implement safeguards to protect non-participants from harm caused by the Long Term offer, Staff believes that the following OAG recommendations are reasonable for protecting non-participant rate-payers: 1) limit the monthly per kWh charge for the R*C program to an amount equal or greater the monthly Fuel Charge for every month of the contract term; 2) require the neutrality adjustment be periodically updated during the contract term on a regular schedule based on the most currently available information; 4) limit contract terms to no more than five years in length; 5) require the resource cost for R*C offerings to be similar for month-to-month and long-term offers; and 6) prohibit Xcel from exclusively allocating lower-cost resources to the long-term offers.

Again, staff notes that limiting the monthly per kWh charge to an amount equal to or greater than the monthly Fuel Charge each month for the duration of the contract may provide sufficient protection by itself to safeguard non-participants.

E. Capacity Cost

Fresh Energy recommended providing all R*C customers with the calculated capacity value, rather than discounting based on Xcel's projection of its capacity position. Specifically, Fresh Energy recommended that the Commission approve Xcel's Petition as filed, with the modification to provide a capacity credit for both Month-to-Month and Long Term Offer customers beginning in 2021 and without a discount factor ("percent retained"). [129]

In response, Xcel explained that the Company proposed a capacity credit based on value to the system where the capacity need begins in 2025 and incorporating a capacity credit prior to system need would cause non-participants' costs to increase as a result of this program.[130] In other words, Xcel cautioned that Fresh Energy's recommendation will further reduce the R*C rate for participants, and potentially below the Fuel Charge that non-participants pay.

In its Order approving the R*C Pilot, the Commission recognized that Xcel proposed to calculate a capacity credit that "reflects the value of the additional capacity driven by participation in the program," and that Xcel proposed to calculate this value by dividing the capacity value of the resource divided by the expected kWh output of the resource.[131]

The Commission also recognized that some parties objected to the proposed capacity credit, either for how the credit was calculated, or were opposed to including a capacity credit at all. Having considered the objections to the cost components, the Commission approved the R*C

[129] Fresh Energy Reply Comments, p. 3.

[130] Xcel Reply Comments, p. 5.

[131] Order approving Pilot Program and Requiring Filing, p. 6.

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.[132]

The Order stated that Commission was "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."[133]

Staff again advises that the Commission should base its decision for the capacity credit on whether it has learned enough from the R*C Pilot program to make an informed decision.

F. R*C Program and Anti-Competition with Solar*Rewards Community

The CSGP claimed that the expanded R*C program will create an unfair playing field that will negatively affect the state's CSG market, and ultimately harm consumers. Therefore, the CSGP requested that the Commission defer action on this matter and take time to study this matter through designation of a lead commissioner and/or referral to mediation overseen by a neutral arbiter for the purpose of developing a more complete record on which the Commission may make a decision in the public's interest. The CSGP submitted the following specific recommendations to ensure a more level playing field:[134]

- Require that any R*C capacity be subject to the requirements, rules and restrictions of the Community Solar Garden statute as the legislation contemplates.
- If Xcel wants to build utility scale solar gardens, the Commission should provide policy guidance to assist the legislature to likewise allow utility scale solar gardens to be built by other providers in the industry or otherwise rescind the one megawatt co-location rule adopted by the Commission in its August 6, 2014 order, and require Xcel's R*C proposal to be delayed pending legislative approval or pending further development of the record; or
- Deny the tariff offering if a level competitive playing field cannot be achieved.

The CSG Statute, Minn. Stat. § 216B.1641, carves out a role for non-utility development of CSGs, which is the statutory framework for the Solar*Rewards Community program. Minn. Stat. § 216B.1641 (a) states that "…[t]he owner of the community solar garden may be a public utility or any other entity or organization that contracts to sell the output from the community solar garden to the utility…"

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[132] *Id.*

[133] *Id.*

[134] CSGP Comments, pp. 5-6.

Minn. Stat. § 216B.1641 (d) states that "[t]he public utility must purchase from the community solar garden all energy generated by the solar garden."

While the CSG Statute allows Xcel to develop and own CSGs in it Solar*Rewards Community program, the statute does not require it. If Xcel did choose to own a CSG and offer customers an option to subscribe to the CSG as part of its Solar*Rewards Community program, Minn. Stat. § 216B.1641 (e)(3) requires that the Solar*Reward Community program "not apply different requirements to utility and nonutility community solar garden facilities." At this time, Xcel has not chosen to develop and/or own a CSG in it solar*Rewards Community program.

The R*C Pilot program was filed and approved by the Commission under Minn. Stat. § 216B.169. In its Order Approving the Pilot Program the Commission stated:[135]

> 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.

Xcel also filed its Petition to expand the R*C Pilot into a full-time, permanent product offering under Minn. Stat. § 216B.169.

[135] Order approving Pilot Program and Requiring Filing, p. 7.

VIII. Decision Options

A. Approve Xcel's Petition to Expand the R*C Pilot Program into a Full-Time Permanent Offering. Xcel's Petition Included the Following Proposals:

1. The program structure, pricing methodology, and terms and conditions of the new offerings;[136]

2. The Tariff sheets for the new Long Term Offer;[137]

3. The content of the Tariff sheets for the Ongoing Month-to-Month Offer, the current revision to the Tariff sheets for Windsource removing minimum subscription periods and the revisions to the Tariff sheets for Windsource (and the pilot, with permission to file these Tariff sheets with approved pricing at or near the time the resources are in place;[138]

4. The transition of Windsource Program customers to the Ongoing Month-to-Month Offer of our Renewable*Connect program;

5. The transition of month-to-month pilot customers to the Ongoing Month-to-Month Offer of Renewable*Connect, and the cancellation of the pilot Service Agreements for these customers;

6. The ability to utilize energy from a system wind resource during months of low wind production to support the new offerings balanced by excess wind production in months where generation exceeds usage;

7. The allocation to the system of any excess energy from existing or new R*C Program resources and the recovery of excess energy costs through the Fuel Charge;

8. Use of a negative check-off process for amendments to the customer Service Agreement that may differ from an approved and tariffed version of the Service Agreement for the Long Term Offer of the R*C Program; and

9. Its proposed annual reporting components and tracker report template

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[136] Xcel Energy Petition – Initial Filing, See Attachment F through I-2.

[137] *Id.,* See Attachment D.

[138] *Id.,* See Attachments B, C, E and E1.

B. Approve Xcel's Petition to Expand the R*C Pilot Program into a Full-Time Permanent Offering, with the Following Conditions:

1. Require Xcel to file its initial final pricing for its R*C Program within 30 days of approval of its resource acquisitions for the Program. (The Department, Fresh Energy).

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

3. Provide a capacity credit for both Month-to-Month and Long Term Offer customers beginning in 2021 and without a discount factor ("percent retained"). (Fresh Energy)

4. The R*C program shall be limited to month-to-month offers, without long-term contracts. (OAG)

5. Xcel shall not be allowed to recover the costs of unsubscribed portions of the R*C resources through the FCA. (OAG)

6. The monthly per kWh charge for the R*C program may never be lower than the monthly fuel clause adjustment. (OAG)

7. The neutrality adjustment shall be updated so that it continues to account for Economic Impacts and stranded costs. (OAG)

8. The neutrality adjustment shall be updated on a regular schedule based on the most currently available information. (OAG)

9. Xcel shall investigate whether the neutrality adjustment should account for system benefits provided by non-R*C generation, and provide a report to the Commission within one year. (OAG)

10. If the Commission permits long-term contract offers:

    a. R*C contract terms may be no more than five years in length. (OAG)

    b. The resource cost for R*C offerings must be similar for month-to-month and long-term offers, and Xcel may not exclusively allocate lower-cost resources to the long-term offers. (OAG)

    c. Long-term Renewable*Connect contracts must provide that the neutrality adjustment may be periodically updated during the contract term. (OAG)

11. Require that any R*C capacity be subject to the requirements, rules and restrictions of the Community Solar Garden statute (CSGP)

C. Defer Action on the Matter to Allow Time for Information Gathering:

1. The Commission shall provide policy guidance to assist the legislature to allow utility scale solar gardens to be built by other providers in the industry or otherwise rescind the one megawatt co-location rule adopted by the Commission in its August 6, 2014 order, and require Xcel's R*C proposal to be delayed pending legislative approval. (CSGP)

2. Designate a commissioner to be the lead commissioner and/or refer to a mediation overseen by a neutral arbiter for the purpose of developing a more complete record on which the Commission may make a decision in the public's interest. (CSGP)

3. Defer action on Xcel's request to expand the R*C Pilot Program into a full-time permanent offering until additional annual report(s) have been filed and parties have had the opportunity to file comments and reply comments on the report(s). (Staff decision option)

D. Deny Xcel's Petition to Expand the R*C Pilot Program into a Full-Time Permanent Offering. (The OAG, CSGP)