

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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| Nancy Lange | Chair |
| Dan Lipschultz | Commissioner |
| Matthew Schuerger | Commissioner |
| Katie J. Sieben | Commissioner |
| John A. Tuma | Commissioner |

In the Matter of Xcel Energy’s Request to Issue Renewable Development Fund Cycle 4 Requests for Proposals and Petition for Approval of a Standard Grant Contract

ISSUE DATE: October 11, 2018

DOCKET NO. E-002/M-12-1278

ORDER APPROVING GRANT-
CONTRACT AMENDMENTS AND
REQUIRING COMPLIANCE FILINGS

PROCEDURAL HISTORY

On September 22, 2017, Northern States Power Company, dba Xcel Energy (Xcel or the Company), filed a *Petition Regarding a Change in Scope of a Renewable Development Fund Grant Contract*. The Company requested Commission approval of several changes to a grant awarded to the Minnesota Renewable Energy Society (MRES or the developer) to fund the construction of two community solar gardens.

The requested changes are intended to:

1. Allow third-party ownership of the solar gardens;
2. Allow the gardens to participate in Xcel’s community-solar-garden program; and
3. Use available grant funds to construct an additional solar garden.

Xcel also stated that, if these changes were approved, MRES would shift the focus of the project to recruiting exclusively low-income subscribers to the gardens.

On December 21, 2017, the Minnesota Department of Commerce, Division of Energy Resources (the Department) filed comments recommending that the Commission grant Xcel’s petition with modifications.

On January 10, 2012, the following parties filed reply comments:

- Xcel
- MRES and its financial partner, Greenway Solar, LLC
- The City of Minneapolis

These parties opposed the modifications recommended by the Department, arguing that they would either prevent the project from being viable or reduce the financial benefit to subscribers.

On August 23, 2018, the Commission met to consider the matter.

FINDINGS AND CONCLUSIONS

I. Summary of Commission Action

In this order, the Commission approves Xcel’s requested changes to MRES’s grant contract and requires compliance filings to confirm that low-income customers receive the maximum possible benefit from garden subscriptions.

II. Background

A. The Renewable Development Fund

Minnesota law requires Xcel to fund a renewable-development account (often referred to as the renewable development fund, or RDF) as a condition of storing spent nuclear fuel at its Prairie Island and Monticello nuclear power plants.¹

The original RDF statute, enacted in 1994, specified that funds from the account were to be used solely for “development of renewable energy sources.”² The Legislature later replaced this language with four specific goals:

1. to increase the market penetration within Minnesota of renewable electric energy resources at reasonable costs;
2. to promote the start-up, expansion, and attraction of renewable electric energy projects and companies within the state;
3. to stimulate research and development within the state into renewable electric energy technologies; and
4. to develop near-commercial and demonstration-scale renewable electric projects or near-commercial and demonstration-scale electric infrastructure delivery projects if those delivery projects enhance the delivery of renewable electric energy.³

In 2017, the Legislature eliminated all but the third goal of stimulating research and development, and added two new goals related to encouraging grid modernization and “other innovative energy projects that reduce demand and increase system efficiency and flexibility.”⁴ It also added an express requirement that fund expenditures “must benefit Minnesota ratepayers receiving electric service from [Xcel] or the Prairie Island Indian community or its members.”⁵

¹ Minn. Stat. § 116C.779 (hereinafter “the RDF statute”).

² 1994 Minn. Laws ch. 641, art. 1, § 10.

³ 2012 Minn. Laws ch. 196, § 1.

⁴ 2017 Minn. Laws ch. 94, art. 10, § 3.

⁵ *Id.*

B. MRES's Original Proposal

MRES was awarded a grant during the most recent round of RDF funding, which began with a request for proposals (RFP) by Xcel in February 2013.

MRES proposed to construct two community solar gardens—solar facilities in which community members can buy subscriptions and receive bill credits from Xcel for the energy generated—with a capacity of 500 kW DC each (“the project”). The amount of the bill credits was to be \$0.07 per kilowatt-hour (kWh), escalating over time. To facilitate evaluating the barriers to developing solar gardens in different geographic areas, one solar garden would be constructed at an urban site and the other at a rural site.

Solar gardens were an untested concept in Minnesota in 2013, and the Minnesota Legislature was considering (and would ultimately enact) legislation requiring Xcel to establish a solar-garden program for its ratepayers.⁶ MRES's proposal stated that the project would be adapted “to fit within whatever legislation develops and passes.”⁷

MRES estimated that the total cost of the project would be \$4,036,420, and requested RDF funding of approximately 70% of that amount. After consulting with an advisory group that included ratepayer and Company representatives, Xcel recommended MRES's project for funding. The Commission agreed and, in March 2014, approved a grant to MRES of \$2,661,320.⁸

MRES executed a standard grant contract with Xcel on February 17, 2015.

C. MRES's Updated Proposal

The solar-garden legislation enacted in 2013 was implemented by Xcel and the Commission through lengthy proceedings in 2014 and 2015.⁹ In these proceedings, Xcel developed its solar-garden tariff, which includes a standard contract governing the operation of solar gardens and a bill-credit mechanism through which subscribers are compensated for the energy generated by the gardens. By the end of 2017, Xcel had nearly 250 MW of solar-garden capacity on its system, with another 550 MW progressing through the application process.

It was against this backdrop that, in March 2017, MRES notified Xcel of several proposed changes to its project.

First, MRES proposed to develop and operate its gardens within Xcel's solar-garden program, and to dedicate them to low-income residential ratepayers, either by selling subscriptions directly to these customers or by selling subscriptions to owners of low-income housing. These changes

⁶ See 2013 Minn. Laws, ch. 85, art. 10, § 2 (codified at Minn. Stat. § 216B.1641).

⁷ Xcel Petition, Attachment A (MRES grant application), at 49 (September 22, 2017).

⁸ See Order Approving RDF Grant Recommendations, Establishing Funding Procedures, and Requiring Compliance Filings, at 10 & Attachment C (March 11, 2014).

⁹ See generally *In the Matter of the Petition of Northern States Power Company, dba Xcel Energy, for Approval of Its Proposed Community Solar Garden Program*, Docket No. E-002/M-13-867 (“the solar-garden docket”).

were designed to (1) take advantage of the work that Xcel has already done to create a standard solar-garden contract and bill-credit mechanism and (2) shift the project's focus to recruiting low-income subscribers, a demographic that had proven challenging to reach through Xcel's solar-garden program.

MRES also proposed to bring in a new financial partner, Greenway Solar, LLC, who has the tax liability necessary to realize the investment tax credits associated with the project. MRES stated that it had an agreement with Greenway to develop, own, and operate the project, while MRES would retain responsibility for RDF grant compliance.

Finally, MRES proposed to amend the project's construction schedule consistent with Xcel's schedule for completing its interconnection work at the garden sites.

D. Xcel's Petition

Xcel generally supported the project changes requested by MRES. However, because subscriber bill credits under Xcel's solar-garden program are greater than the \$0.07/kWh that MRES had originally proposed, the Company recommended that MRES's grant award be reduced by the difference.¹⁰ Xcel estimated the net present value of this difference to be \$1.4 million, which left a grant balance of about \$1.3 million available to MRES to develop the two solar gardens.

Xcel attached an executed "First Amended and Restated Grant Contract" to its petition reflecting the changes requested by MRES and reducing the grant amount from \$2,661,320 to about \$1,283,000. It stated that the changes are material and would therefore require Commission approval.¹¹

Xcel also proposed that MRES be allowed to use up to \$1.4 million—the amount by which its grant award is reduced under the amended grant contract—to build a third solar garden of up to 700 kW DC. This garden would be built on property owned by the City of Minneapolis and, like the first two gardens, would be designated for subscription by low-income customers of Xcel.

Xcel acknowledged that this expansion of the project's scope would be another material change requiring the Commission's approval. If the Commission approves the scope change, the Company would make a compliance filing with a second contract amendment that increases the allowed capacity from 1,000 kW to 1,700 kW and reinstates the original grant amount of \$2,661,320.

¹⁰ Under Xcel's solar-garden program, subscribers to MRES's first garden would receive bill credits at the "applicable retail rate," which can range from 10.5 to 16.5 cents per kWh, depending upon a subscriber's customer class and whether the garden operator elects to sell renewable-energy credits to Xcel. *See* Xcel Minnesota Electric Rate Book, section 9, sheet 64. Subscribers to MRES's second garden and proposed third garden would receive bill credits at the "value-of-solar rate," which escalates annually and currently stands at about 10 cents per kWh. *See id.*, sheet 64.101.

¹¹ *See In the Matter of a Petition by Northern States Power Company d/b/a Xcel Energy for Approval of the Renewable Development Fund Annual Report, Tracker Account True-up, and 2005 Rate Rider Factor*, Docket No. E-002/M-05-109, Order Setting Rider, Approving Contract Amendments and Process for Future Amendments, and Requiring Continued Reporting, at 6–7, 9 (June 28, 2005) (requiring Xcel to obtain Commission approval of "material" RDF-grant-contract amendments).

III. Positions of the Parties

A. The Department

The Department supported MRES's proposal to have Greenway Solar develop and own the project. However, the Department expressed concern that some of the other changes to the grant contract were inconsistent with the original RFP process and potentially unfair to other parties who had submitted proposals.

Specifically, the Department argued that (1) the price Xcel's ratepayers would pay for the project's energy under the Company's solar-garden program was significantly higher than MRES's original proposal, and (2) the grant award should be reduced by \$2.1 million to reflect the project's decreased budget.

The Department recommended that the Commission allow Xcel to modify the grant contract to effectuate the change in project ownership and to require the Company to account for the reduced project cost by reducing the grant award from \$2,661,320 to \$512,352. The Department did not recommend allowing MRES to develop the gardens under Xcel's community-solar-garden program.

B. Xcel

Xcel argued that the changes to MRES's grant contract were reasonable and in the public interest. It also stated that it had discussed the changes with the RDF advisory group, which had no concerns with them.

The Company stated that if MRES is not allowed to use the existing solar-garden program, the developer and the Company would need to develop a new, separate solar-garden program specifically for MRES's two gardens, a considerable administrative burden. Xcel also expressed concern that the existence of a second solar-garden program limited to MRES's project would prove confusing to interested subscribers and other industry stakeholders.

Xcel acknowledged the Department's argument that the decrease in the project's budget could alter the percentage of the project being paid for with RDF funds. But while cost-sharing was a factor considered in evaluating proposals, Xcel argued that a more important factor—constituting 30% of an RDF project's technical score—was the "total resource cost" per kWh, and that the proposed changes made the project more favorable under this metric.

C. MRES

Like Xcel, MRES emphasized that the RDF advisory group had assented to the changes in the proposed amended grant contract. The developer argued that it was unlikely that other project proposers from the 2013 RFP would still be available to take advantage of the grant funds, much less on the same terms they offered five years ago. MRES stated that it was unclear what would happen to the funds if the proposed amendment were rejected, given the 2017 legislative changes to the RDF statute.

MRES also challenged the Department's assumption that developing the project under Xcel's solar-garden program constituted an unreasonable change from the original proposal, noting that its original proposal expressly contemplated that the project would be adapted to fit within the then-pending legislation.

MRES acknowledged that the bill-credit rates under Xcel's program are higher than its bid price. However, MRES argued that this difference was addressed by decreasing the funding for the first two gardens. And it pointed out that using Xcel's existing program avoids costs associated with developing a new solar-garden program solely for MRES's project.

MRES contended that the Department's proposed reduction in grant funds would either make the project unviable or, if it remains viable, reduce the benefit that can be passed on to subscribers in the form of lower subscription fees.

D. City of Minneapolis

The City of Minneapolis supported expanding the project to include a third, urban solar garden dedicated to low-income subscribers. The City stated that the garden would be located on the roof of a new public works facility in the East Phillips Neighborhood and would serve from 50 to 75 low-income households.

Without the grant funds, the City estimated that the monthly subscription price would need to be 23 cents per kWh, substantially higher than the value-of-solar bill credit subscribers would receive. It estimated that an RDF grant of \$800,000 would lower the subscription price to 8.4 cents per kWh, allowing a typical low-income household to save 25% on its electricity bill, and that an RDF grant of \$1.2 million would increase the savings to 47%.

IV. Commission Action

The Commission finds that the grant-contract changes requested by MRES and Xcel are reasonable and in the public interest and will therefore approve them.

The changes to allow third-party ownership of the gardens are necessary for MRES to move forward with the project. Ownership by an entity that can take advantage of a project's tax benefits—an arrangement known as tax-equity financing—is a common feature of community solar gardens. All parties agree that this change is reasonable, and the Commission concurs.

The changes to allow MRES to participate in Xcel's solar-garden program are also reasonable and in the public interest. Since MRES originally proposed the project, Xcel has established a statutorily required solar-garden program through numerous rounds of stakeholder comments and multiple Commission orders. The program already has hundreds of megawatts of solar gardens online, with hundreds more in progress.

Given these developments, MRES's pilot community solar garden, as originally proposed, is no longer as valuable as it would have been in 2013. Xcel, the Commission, and other stakeholders have already learned valuable lessons through the development of the existing program, tariff, and standard contract.

Rather than continuing to develop a second, potentially redundant solar-garden program, MRES has proposed to leverage Xcel's existing program while shifting the focus of the project to recruiting low-income subscribers, who would receive a substantial discount through the grant funds' buying down the project's cost. At the Commission hearing, MRES represented that subscribers to the first, urban garden would see savings of 3.5 cents per kWh. The second garden is not far enough along for MRES to make a specific commitment, but the developer expects those subscribers to experience significant savings as well.

Finally, using available grant funds to build a third solar garden in an economically disadvantaged area of Minneapolis is consistent with MRES's new focus on low-income subscribers and will help ensure that the benefits of solar energy are shared equitably. And this garden, along with the other two, will provide valuable information on how best to structure solar-garden subscriptions specifically for low-income customers.

The Department recommended that the grant award be reduced to reflect a decrease in the project's budget. But Xcel and MRES persuasively argued that the Department's proposal is inconsistent with how other RDF projects have been treated. And Xcel determined that the total resource cost of the first two gardens was actually lower than MRES's original proposal after the \$1.3 million funding reduction the Company required as a condition of enrolling the projects in its solar-garden program.

In summary, the Commission concludes that Xcel's and MRES's recommended changes are reasonable and will approve them. To help ensure that the RDF funds provide the maximum possible benefit to low-income customers, the Commission will require Xcel to provide, in its quarterly RDF reports, data about cost savings for low-income subscribers, with the understanding that subscribers to the first garden will see savings of 3.5 cents per kWh, and subscribers to the second garden will see savings of significance.

The Commission will further require Xcel to, within 60 days, make a separate compliance filing with the final budget and cost projections for the first, urban solar garden. And the Commission will require Xcel to provide, in Docket No. E-002/M-17-527, a discussion comparing MRES's project to the low-income solar garden planned for Saint Paul's Railroad Island neighborhood and lessons learned from these two different approaches to community solar gardens for low-income individuals.

ORDER

1. The Commission approves the modifications to the grant contract for RDF Cycle 4, Project EP4-15 to:
 - a. Allow third-party ownership of the solar photovoltaics; and
 - b. Allow Xcel to use the Company's community solar garden tariff for the solar arrays rather than a power purchase agreement.
2. The Commission permits a change of scope to allow a third solar garden on City of Minneapolis property, subject to a compliance filing and Commission approval.

3. Xcel shall include in its quarterly RDF reports data about cost savings for low-income subscribers, with the understanding that subscribers to the first garden will see savings of 3.5 cents per kilowatt-hour, and subscribers to the second garden will see savings of significance.
4. Xcel shall make a compliance filing within 60 days with the final budget and cost projections for the first, urban solar garden.
5. Xcel shall provide, in Docket No. E-002/M-17-527, a discussion comparing MRES's project to the low-income solar garden planned for Saint Paul's Railroad Island neighborhood and lessons learned from the two different approaches to community solar gardens for low-income individuals.
6. This order shall become effective immediately.

BY ORDER OF THE COMMISSION

Daniel P. Wolf
Executive Secretary



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