

Staff Briefing Papers

Meeting Date June 10, 2021 Agenda Item **7

Company Northern States Power Company d/b/a Xcel Energy

Docket No. E002/M-12-1278

In the Matter of Renewable Development Fund Cycle 4 Request for Approval of an Amendment to the First Amended and Restated Grant Contract for an Energy Production Project (EP4-15)

Issues 1. Should the Commission approve Xcel Energy's request to modify the First Amended and Restated Grant Contract for an Energy Production Project (EP4-15)?

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The attached materials are work papers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless noted otherwise.

 **Relevant Documents****Date**

Commission, Order Approving Grant Contract Amendments and Requiring Compliance Filings	October 11, 2018
Xcel Energy, Compliance Filing – Request for Approval of Grant Contract Amend	December 16, 2020
Xcel Energy, Other – Errata for Approval of Grant Contract MRES	December 17, 2020
Department of Commerce, Comments	March 12, 2021
MRES, Reply Comments	March 22, 2021

I. Statement of the Issue

Should the Commission approve Xcel Energy's request to modify the First Amended and Restated Grant Contract for an Energy Production Project (EP4-15)?

II. Procedural Background on EP4-15

On November 29, 2012, Xcel Energy (the Company) filed a notice of intent with the Commission detailing their wish to proceed with the fourth funding cycle of its RDF program¹ and approval of a standard grant contract for the RDF projects.²

On February 6, 2013, the Commission approved Xcel's request to move forward with the Cycle 4 RDF process and also provided a modified standard grant contract.³ The order clarified several preference criteria and procedural steps to be utilized when examining proposals.⁴ By mid-February, Xcel issued two 4 Cycle RFPs and accepted proposals until April 1, 2013 – one for Energy Production and Research Development proposals and the other for Minnesota institutes of higher education for renewable electric energy research programs.⁵

On July 29, 2013, following the review of the 67 qualified RFPs, Xcel provided their selection of 33 projects: 20 projects with a full recommendation and an additional 13 reserve projects further categorized among tier 1 and tier 2 lists.⁶ Xcel requested that the Commission approve its recommendation to grant funding for the 20 projects and 13 reserve projects.

In response, in its March 11, 2014 order, the Commission approved Xcel's Cycle 4 RDF project requests as set forth in the Company's December 12, 2013 reply comments.⁷ At that time, the Commission approved and earmarked any unencumbered RDF funds for projects 1-9 on the reserve list.⁸ This resulted in a grant award of \$2,661,320 for

¹ The RDF program was established in 1994 as a part of an agreement with the State of Minnesota and Northern States Power d/b/a Xcel Energy allowing the utility to store spent nuclear at their Prairie Island and Monticello nuclear facilities. Please see [Minn. Stat. § 116C.779](#) for specific details.

² Xcel Energy, [Initial Filing at 1](#) (November 29, 2012) (Docket E-002/M-12-1278).

³ [ORDER APPROVING REQUESTS FOR PROPOSALS AND STANDARD CONTRACTS AS MODIFIED](#) (February 6, 2013) (Docket E-002/M-12-1278).

⁴ *Id.* at 4-6.

⁵ Xcel Energy, [Compliance Filing](#) (February 22, 2013) (Docket E-002/M-12-1278).

⁶ Xcel Energy, [Selection Report](#) (July 29, 2013) (Docket E-002/M-12-1278).

⁷ [ORDER APPROVING RDF GRANT RECOMMENDATIONS, ESTABLISHING FUNDING PROCEDURES, AND REQUIRING COMPLIANCE FILINGS](#) at 10 (March 11, 2014) (Docket E-002/M-12-1278). Please see order point 2: "The Commission hereby approves [Xcel's December 12, 2013](#) selection of energy production and R&D projects, recommendation for block grant awards to institutions of higher education, and reserve list." Also see Attachment A, B, and C of the order.

⁸ *Id.* and Comments by [Department of Commerce, Division of Energy Resources at 3](#) (December 21, 2017).

project number three on the reserve list, EP4-15.⁹ At that time, the Company estimated “through the end of 2013 the accumulated funds in the RDF Program have increased to approximately \$43 million. Further, the Company now projects that the funds in the RDF Program will accumulate to approximately \$49 million by the end of 2014.”¹⁰

In December 2015, Xcel petitioned the Commission for approval to move forward on projects from the reserve list (EP4-36, EP4-44, and RD4-8) following several projects that were at a standstill (EP4-4, EP4-9, EP4-21, and RD4-4).¹¹ The Commission granted this request on December 21, 2015.¹²

In April 2016, Xcel requested to cancel two projects (EP4-36 and EP4-39) and continue with the three remaining projects on the reserve list (RD4-1, RD4-5, and RD4-7).¹³ This was approved in the Commission’s April 29, 2016 Notice.¹⁴

From May 2016 to May 2017, to comply with the Commission’s June 28 order in Docket 05-109¹⁵, Xcel filed three no-cost contract amendments that were all regarding the replacement of the Project Manager and their name and contact information in Exhibit D of the RDF grant.¹⁶

On September 22, 2017, Xcel filed a petition requesting a change of scope and amendments to the contract with Minnesota Renewable Energy Society (MRES) for EP4-15. The Commission’s October 11, 2018 order approved a change of scope to allow a third solar garden in the City of Minneapolis for low-income subscribers, two contract modifications¹⁷, and detailed future reporting on budget and cost savings for low-income subscribers from the planned projects.¹⁸

On December 16, 2020, the Company filed a Petition to amend the modified grant contract with MRES to install a third solar garden up to 700 kW_{DC} in the City of

⁹ Comments by [Department of Commerce, Division of Energy Resources at 3](#) (December 21, 2017).

¹⁰ Xcel Energy, [Letter Re: Availability of RDF Funding](#) at 1 (January 21, 2014).

¹¹ Comments by [Department of Commerce, Division of Energy Resources at 3](#) (December 21, 2017).

¹² [NOTICE OF APPROVAL TO CANCEL PROJECTS AND FUND OTHER PROJECTS](#) (December 21, 2015).

¹³ Xcel Energy, [Request to Discontinue Contract Negotiations](#) (April 6, 2016) (Docket E-002/M-12-1278).

¹⁴ [NOTICE OF COMMENT PERIOD](#) (April 29, 2016) and Comments by Department of Commerce, Division of Energy Resources at 3 (December 21, 2017).

¹⁵ ORDER SETTING RIDER, APPROVING CONTRACT AMENDMENTS AND PROCESS FOR FTUURE AMENDMENTS, AND REQUIRING CONTINUED REPORTING (June 28, 2005) (Docket No. E-002/M-05-109).

¹⁶ Comments by Department of Commerce, Division of Energy Resources at 4 (December 21, 2017).

¹⁷ The two approved modifications were: 1) Allow third-party ownership or the solar PVs and 2) Allow Xcel to use the solar garden tariff rather than a PPA for this project.

¹⁸ [ORDER APPROVING GRANTCONTRACT AMENDMENTS AND REQUIRING COMPLIANCE FILINGS](#) (October 11, 2018).

Minneapolis for low-income subscribers¹⁹ and delay performance assessments of the projects until after the third solar garden's installation is completed.

On March 12, 2021, the Department provided comments on the matter. Though in general support of the modification, the Department raised some concerns the Commission may wish to consider.

III. Summary of Requested Amendments

On December 16, 2020, Xcel Energy filed a request to modify the First Amended and Restated EP4-15 Grant Contract. The Company referred to the Commission's October 11, 2018 order that provided Xcel to move forward with the following:²⁰

- An increase in total installed capacity from 1,000 kW_{DC} to 1,700 kW_{DC} by installing a third solar garden with up to a 700 kW_{DC} capacity on property owned by the City of Minneapolis and will be dedicated to low-income customers of Xcel Energy.
- As a result of the increased installed capacity, there is also an increase of the RDF Grant from \$1,283,100 to \$2,454,125, a difference of \$1,171,025, which Xcel calculated consistent with the proposal approved by the Commission in the October 11, 2018 Order.
- Change the timing of MRES' performance assessment, so that the assessment is conducted after the installation of the third solar garden on property owned by the City of Minneapolis (as opposed to after the installation of the rural garden) to ensure that the final performance assessment evaluates all three installations (urban, rural, City of Minneapolis).

Regarding the price differential, Xcel noted that the ARR pricing method in effect at the time of the October 11, 2018 order would have allowed 837 kW_{DC} with the cost of \$1,378,220.²¹ Now that VOS (Value of Solar) pricing is in effect, the 700 kW_{DC} solar garden cost using that methodology is \$1,171,025. "This results in a total RDF Grant available to MRES, provided all milestones are completed, of \$2,454,125. This amount is less than the original overall grant contract amount of \$2,661,320."²² The negotiated scope and pricing is consistent with the Commission's intent and Xcel requests approval of the third solar garden and modified timing of the performance assessments.

IV. Parties' Comments

1. Department of Commerce

¹⁹ Approximately 50-75 households will be served by this solar garden.

²⁰ Xcel Energy Petition at 2-3 (December 16, 2020).

²¹ Xcel's first amendment that expanded the scope to include a third solar garden with RDF Grant funding up to to \$1.4 million – the amount by which the grant award was reduced under the amended grant contract.

²² Xcel Energy Petition at 5 (December 16, 2020).

The Department of Commerce provided comments on March 12, 2021 that were in support of the modifications but noted a few concerns for Commission consideration. The Department first highlighted that the previous October 11, 2018 order approving modifications to the EP4-15 grant contract did not expressly approve a third solar garden with the City of Minneapolis.²³ Instead, the Commission directed Xcel to come back to the Commission with the negotiated terms and pricing, as the Ordering paragraph 2 states:

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.

The Department cited discussions during the August 23, 2018 Agenda meeting where the Commission explained it was not approving the third solar garden but allowing a scope change and would later review the results of the negotiations with MRES on the potential third solar garden.²⁴

The Department maintained its concerns regarding the significant changes to the project size and pricing terms relative to the original EP4-15 proposal evaluated in the RFP process and approved by the Commission in 2014.²⁵ With a 70% capacity increase and substantially higher pricing associated with the VOS (Value of Solar), the project before the Commission now has been significantly altered than what was evaluated, scored, and compared to other proposals in the RFP process.²⁶ There is concern “that the significant changes in the scope and terms of the project have undermined the integrity of the RFP process and given the project an unfair advantage over other proposals.”²⁷

For the current modifications Xcel is requesting, the Department analyzed two issues: pricing and savings to subscribers.

First, the Department questioned why it is reasonable to apply the same procedure the Company previously used to compute the RDF grant reduction from their September 22, 2017 petition to arrive at the Company’s currently requested increase in the EP4-15 RDF grant.²⁸ It is not clear why this methodology should be carried forward and applied to the RDF grant increase.²⁹ Additionally, the Company assumed as a starting point that the

²³ Comments by Department of Commerce, Division of Energy Resources at 6 (March 12, 2021).

²⁴ See archived webcast of the Commission’s August 23, 2018 agenda meeting, beginning at approximately 1 hour and 50 minutes of webcast: http://minnesotapuc.granicus.com/MediaPlayer.php?view_id=2&clip_id=762.

²⁵ Department Comments at 7 (December 21, 2017).

²⁶ Department Comments at 9 (March 12, 2021).

²⁷ Department Comments at 9 (March 12, 2021).

²⁸ Department Comments at 9 (March 12, 2021).

²⁹ Department Comments at 9 (March 12, 2021).

third solar garden is entitled to a grant equal to 70 percent of the initial \$2,661,320 grant (because the capacity of the third solar garden is 70 percent of the combined capacity of the first two gardens).³⁰ This means that “the initially assumed grant amount is reduced to reflect the notional increase in the price to be paid by Xcel’s rate payers for the energy produced by the third solar garden (i.e. the increase from the initial purchase price to the Value of Solar).”³¹

Secondly, ratepayer savings was a concern the Commission emphasized for the first two solar gardens and the Department questioned whether this third garden will provide any. The Department stated there is “uncertainty as to the range of savings that this third CSG would deliver to subscribers” when considering the available project budget, energy pricing, and varying estimates of potential subscriber savings.³²

Having shared these matters, the Department recognized that the total grant amount for these three solar gardens (\$2,454,125) is less than the total grant amount initially approved in 2014 (\$2,661,320) and does not have any strong objections to the proposed contract amendment.³³

2. MRES and Xcel Energy

The Company provided reply comments on March 22, 2021 responding to the Department. Regarding the calculation of the grant amount award, Xcel believed their calculations were consistent with the record in the docket and stated the “70 percent reduction factor was only used to determine the revised NPV [net present value] of the original proposal because the modified proposal was only 70 percent of the original size, thus under the original proposal it would have only returned 70 percent of the value.”³⁴ The Company then applied the current VOS pricing, which the third solar garden would be based upon. Additionally, Xcel also referred to their September 22, 2017 filing where the Company said this methodology would be applied if a third garden was approved.³⁵

Regarding savings, Xcel is not in a position to confidently provide a savings forecast. “Until such time as a final approval is granted and construction costs can be formally determined, we will not have more specific bill savings information from the grantee.”³⁶

³⁰ Department Comments at 9 (March 12, 2021).

³¹ Department Comments at 9 (March 12, 2021).

³² Department Comments at 10 (March 12, 2021).

³³ Department Comments at 10 (March 12, 2021).

³⁴ Xcel Energy Reply Comments at 2 (March 21, 2021). Also see Attachment 2 of Xcel’s December 16, 2020 filing (PDF page 15 – Exhibit C).

³⁵ Xcel Energy Reply Comments at 1 (March 21, 2021).

³⁶ Xcel Energy Reply Comments at 2 (March 21, 2021).

However, it was offered to have an MRES representative at Agenda meeting should the Commission wish for more information.

V. Staff Analysis

Staff appreciates the Department's analysis and bringing forward these concerns. Staff agrees with the Department's position that the Commission did not provide full approval of the third solar garden but, instead, approved the change of scope to EP4-15 to include a third solar garden where before it was limited to two solar gardens. This allowed the parties – Xcel and MRES – an opportunity to negotiate terms before obtaining Commission approval before moving forward and building the third solar garden.³⁷

Without a doubt, there have been several modifications to the grant contract in the last seven years, including principal changes to the project and scope of the grant. Staff agrees that in other instances this may compel a new RFP process. However, staff noted in previous EP4-15 proceedings that chief legislation as well as Xcel's Community Solar Garden progressed concurrently as the RDF Grant Cycle 4 in which EP4-15 was part of. Both the Company and MRES continued to keep the spirit of learning and applying the RDF funding to a beneficial use in line with RDF scope and project goals³⁸ leading us to what is before the Commission. The Commission has interest in seeing value-added solar offerings and learning about the benefits that solar can bring to low-income communities and ratepayers with high energy burdens. The Commission and Department have approved solar offerings for Xcel Energy's low-income customers including Solar*Rewards incentives.³⁹

The Department is right to question the savings that will be realized from these projects. MRES previously believed that subscribers to the first, urban garden would see savings of 3.5 cents per kilowatt-hour, while subscribers to the second, rural garden will see 'savings of significance', and this third garden is also 'significant' yet the Commission does not have figures before them to review.⁴⁰ Staff understands Xcel's position that

³⁷ Order Point 2 in ORDER APPROVING GRANTCONTRACT AMENDMENTS AND REQUIRING COMPLIANCE FILINGS (October 11, 2018) (emphasis added):

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.*

³⁸ The original goal of the EP4-15 project was is to install 1,000 kW_{DC} solar PV capacity and demonstrate the concept of collective Solar Garden ownership as a way to increase the penetration of solar renewable electric production in Minnesota.

aMore information can be found in several filings throughout the project's history, including the grant application: Xcel Energy, [Informational Filing – Standard Grant Contract Renewable Development Fund-Cycle 4 Grant Contract with Minnesota Renewable Energy Society \(EP4-15\)](#) at PDF page 47-51 (February 19, 2015).

³⁹ Docket No. E002/M-13-1015 for Solar Rewards.

⁴⁰ Xcel Energy Reply Comments at 2 (March 21, 2021).and Department Comments, Attachment 3 (March 12, 2021) and ORDER APPROVING GRANTCONTRACT AMENDMENTS AND REQUIRING COMPLIANCE FILINGS at 7 (October 11, 2018).

project costs impact subscriber savings. Given the lack of information on customer savings, if the project is approved, the Commission may wish to require compliance filings to be informed on the resulting subscriber savings, especially given the focus on low-income customers. Staff suggests, as previously required for the other projects in this grant, that Xcel supply subscriber cost savings as compliance filings. Moving forward, Xcel should include in its quarterly RDF reports data about cost savings for all three solar gardens:

- Urban 417 kW (north Minneapolis “Impact Project”)
- Rural 579 kW (Dodge County “Rural Project”)
- City of Minneapolis Property, Low-Income Solar Garden 700 kW_{DC}

VI. Decision Options

1. Approve the Amendment to the First Amended and Restated Grant Contract to Energy Production Project (EP4-15)
 - a. If approved, Xcel shall include in its quarterly RDA reports data about subscriber savings for all three solar gardens.
2. Reject the Amendment to the First Amended and Restated Grant Contract to Energy Production Project (EP4-15)
3. Make some other finding