

**STATE OF MINNESOTA
PUBLIC UTILITIES COMMISSION**

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Matt Schuerger	Commissioner
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John Tuma	Commissioner

In the Matter of the Petition for approval of Northern States Power Company, dba Xcel Energy, for approval of its Community Solar Garden Program

MINNESOTA SOLAR ENERGY INDUSTRIES ASSOCIATION'S (MnSEIA) REPLY COMMENTS ON DOC'S SUGGESTED ADDERS

May 17, 2017

Docket No. E-002/M-13-867

**REPLY COMMENTS OF THE MINNESOTA
SOLAR ENERGY INDUSTRIES ASSOCIATION**

REPLY COMMENTS

Xcel Energy (Xcel) filed comments on April 18, 2017 requesting that the Commission reject the Department of Commerce's (DOC) residential adder. Many of the same arguments Xcel used were also outline in the Office of Attorney General's (OAG) comments. The Minnesota Solar Energy Industries Association (MnSEIA) does not agree with Xcel's or OAG's general sentiment.

As we stated in our last comments, we are supportive on the DOC's residential adder, but think it should remain fixed at \$.025/kwh until the Commission no longer feels it is warranted during a periodic review. Xcel, however, feels that no adder is necessary at this time and they state their point with four different arguments: 1) "sufficiency of supporting evidence"; 2) "Ripeness"; 3) "Funding Source and Implementation"; and 4) "Reasonableness and Public Interest Support."¹

¹ See COMMENTS – VOS ADDER COMMENTS, XCEL ENERGY, Docket No. E-002/M-13-867, Doc. Id. 20174-130909-01 (Apr.18, 2017) [Hereinafter, *Xcel Comments*].

We will first refute each of Xcel's arguments in turn, and then we will address any other OAG argument that is not also addressed through Xcel's commentary.

I. THERE IS SUFFICIENT SUPPORTING EVIDENCE TO JUSTIFY A \$.025/KWH RATE FOR RESIDENTIAL COMMUNITY SOLAR GARDENS.

Xcel's argument for their first section is that what DOC outlined in its comments is not enough of a rationale to develop an incentive. Xcel summarizes DOC's point and quotes another, stating "To substantiate its proposal, the Department states merely that administration costs for residential customers are higher than commercial customers and that 'many of the commenters recommended a VOS adder of \$0.025 per kWh for residential subscribers.'"² Xcel then goes on to state that it is troubled by the lack of foundation.

There is, however, no lack of foundation. Some facts about the world are deductible, like scientific facts, and others are *a priori* true, like math equations. The need for a \$.025/kwh adder is both of them. To support DOC's position, we have three years of application data to suggest a tiered rate structure (i.e. the Applicable Retail Rate) yields some residential community solar gardens, but even with the additional boost in financing, residential subscribers only account for about 10-13% of the entire Xcel CSG program portfolio.³ This is inductive proof that some amount of an adder must be placed on top of a single, flat rate in order to yield residential gardens.

The other piece of evidence is the *a priori* aspect about them. If you think about the situation, it is obviously true that residential gardens need additional financing to be viable. There are more subscribers - which means more subscriber acquisition costs, more subscriber management costs, more risk associated with residential customers than corporate entities, etc. - and this necessarily means that residential gardens need more financing to make them competitive with low subscriber gardens. It will almost always be the case that residential gardens are more expensive to develop and manage than gardens based on other subscriber classes.

So perhaps the DOC didn't detail out its exact methodology, but it is clear that in order to create residential community solar gardens, the Commission must devise an additional adder.

Xcel also seems to be concerned about how the rate was developed, what the rate is, and the stepdown aspect of the incentive amount. We too wonder about the stepdown approach and the

² *Xcel Comments, supra* note 1 at 2.

³ *See* SOLAR REWARDS COMMUNITY 2016 ANNUAL REPORT, XCEL ENERGY, Docket No. E-002/M-13-867, Doc. Id.20179-130400-01 at 2 (Mar. 31, 2017) (stating "Nearly 90 percent of the completed gardens' capacity is allocated to commercial Subscribers," and Figure A. Capacity Allocation to Subscribers, Completed Gardens notes that 13% of the subscribers are Residential.)

merits for it. But the foundation for the \$.025/kwh is clear. The Department sought feedback from the developer community and from other stakeholders at large on what is needed to make this program successful. The relevant stakeholders responded by stating they need at least \$.025/kwh. This seems to be relatively uncontroverted.

Moreover, it is a similar boost as what we saw with the applicable retail rate. So the DOC's adder amount is also predicated on the data generated by this three year program. In lieu of the substantial amount of data available on the need for a residential adder, Xcel was unable to convince the Department that an adder was unnecessary, and we hope the Commission agrees with the Department's viewpoint and adopts a residential CSG adder.

II. THIS IS THE APPROPRIATE TIME TO BE CONSIDERING A RESIDENTIAL ADDER.

The residential garden community is already lagging behind the commercial market, and this is with the tiered applicable retail rate.⁴ It is clear that if we do not act now, we will not have a residential community solar garden program. But Xcel is questioning whether now is the time for an adder. They state "We have no evidence yet as to the performance of the VOS for any customer class or for any purpose," despite publishing data to this very effect last month.⁵

There is enough evidence to show we need an industry-wide adder now, let alone a residential one. Since migrating to the Value of Solar (VOS) Rate with 1MW colocation caps, Xcel has received 1 application for a new project.⁶ There has only been one project submitted in 2017 and to our knowledge it was not a residential one. The program appears to be in grave danger of petering out. Now seems like the perfect time to fix the program generally. Having one application in five months warrants ripeness for the program generally, let alone for the residential program, which comprises a sliver of the CSG program portfolio.

⁴ See SOLAR REWARDS COMMUNITY 2016 ANNUAL REPORT, XCEL ENERGY, Docket No. E-002/M-13-867, Doc. Id.20179-130400-01 at 2 (Mar. 31, 2017).

⁵ *Xcel Comments, supra* note 1 at 2.

⁶ See COMPLIANCE FILING – MAY 2017 UPDATE, XCEL ENERGY, Docket No. E-002/M-13-867, Doc. Id. 20174-131710-01 at 2 Table 2. (May 9, 2017).

III. DOC’S PROPOSAL WAS AMBIGUOUS AS TO THE FUNDING SOURCE AND IMPLEMENTATION OF THE PROGRAM, BUT THIS SHOULD NOT DETER THE COMMISSION FROM APPROVING THE ADDER WITH MODIFICATIONS.

Xcel also believes DOC’s proposal is not actionable, because DOC has not stated where the funding for the incentive will come from.⁷ The DOC was tasked with determining what the rate should be, not where the funding should come from. This issue seems more like a small issue for the Commission to determine, instead of a crippling argument for the DOC’s proposal.

Additionally, Xcel is concerned that DOC has not suggested how the incentive should be implemented generally. Xcel states:

Further, the Department has not set forth how an adder would be implemented. The proposal is silent on how the adder’s declining schedule would interplay with the key timeframes in the Company’s program, which include the VOS vintage year (which “attaches” the year a project is deemed complete), and the actual bill credit paid, which ties to the year within the VOS vintage that the garden becomes operational.

The Company foresees a scenario that would make bill credit rates for Solar*Rewards Community even more frustratingly complex, as a subscriber would review the program and find six sets of bill credit rates each year under the Applicable Retail Rate (ARR), plus 25 years’ worth of VOS rates correlating to each vintage year, plus some configuration of a declining incentive attached to certain years of the VOS, applicable to one customer class. With the Commission-ordered inclusion of locational avoided cost components into the VOS methodology, the Company **anticipates publishing more than one thousand distinct bill credit rates associated with this program**. It would seem to the casual observer that this unwieldy outcome frustrates some of the goals of the VOS. It is possible that any benefits from additional incentive regulation will ultimately be diminished if the incentive scheme is too complex to administer, promote, track, or regulate.⁸

MnSEIA agrees with Xcel’s statement, insofar, that we also believe that the step down of the adder is unnecessarily confusing and challenging for developers and subscribers alike. Xcel seems to be suggesting that the complexity of the adder’s step down is a reason to not adopt the adder at all. We disagree with that conclusion. Instead, the Commission should do away with the

⁷ See *Xcel Comments, supra* note 1 at 3.

⁸ *Xcel Comments, supra* note 1 at 3.

step-down aspect of the incentive, but approve the \$.025/kwh, until and unless, it becomes apparent that the adder is no longer needed.

With this approach, the Commission could avoid the administrative complexity of the adder's step down, while preserving its ability to correct the program if necessary. The Commission could periodically check in on the adder amount to ensure that it is consistent with the statute's accessibility and public interest requirements.

IV. DOC'S PROPOSAL IS REASONABLE AND IN THE PUBLIC INTEREST.

A CSG program that has different subscriber classes seems directly within the public interest. The current program services the commercial and industrial sectors quite well, but the residential marketplace is currently not financeable. It seems that the general public interest would be met with a Residential adder.

The state of Minnesota has a vested interest in ensuring that its CSG program can service a diverse class of customers even if this does result in some mild ratepayer impacts. If the VOS methodology was calculated correctly, then no ratepayer is currently being harmed from gardens submitted and built using the VOS rate. An adder, however, may increase energy costs for some ratepayers. But the benefit that ratepayer-subscribers would gain from having access to the CSG program would offset impact on non-participating ratepayers.

Conversely, Xcel believes that an adder for residential customers would harm the public interest. Xcel seems particularly perturbed that "The Department has not set forth any goals for its proposal or provided any expectations for how its proposal will perform."⁹ We would not mind having this information as well, and some commenters in the prior round proffered a 50% residential goal, which we support.¹⁰ Minn. Stat. § 216B.1641 does not allow for caps on the community solar gardens program, but it also doesn't preclude the commission from having program goals.¹¹ The Commission could decide what a program that creates residential CSGs

⁹ *Xcel Comments, supra* note 1 at 3-4.

¹⁰ COMMENTS, JOINT COMMENTERS, Docket No. E-002/M-13-867, Doc. Id. 20174-130907-01 at 5 (Apr. 18, 2017) (stating "We thus respectfully request that the Commission require Xcel Energy to continue its practice of reporting the program-wide-residential-capacity ratio in future Annual Reports due each March. If and when the annually-reported ratio surpasses a target of, say, 50 percent (or another "accessibility target" adopted by the Commission), any party may petition the Commission for a reasonable decrease to the residential adder for new CSG applications submitted in the future.).

¹¹ *See* Minn. Stat. § 216B.1641.

and makes them accessible looks like and share that information, especially in lieu of the possibility of a residential adder. This should assuage Xcel's concerns.

Looking outside of this docket, as MnSEIA staff types these comments, the state legislature is seeking to repeal the Made in Minnesota rooftop program, and the cooperative utilities are looking to develop their own net-metering rules in lieu of established Commission rules.¹² Our rooftop solar installation community in this state is currently under attack and may not exist by the time the Commission hears this issue.

Despite high residential demand, the vast majority of customers that are currently being serviced by our rooftop solar installation community may no longer have the option to place solar on their house. If no other viable options are present, those customers will likely seek to turn to CSGs. That shift, however, cannot occur if there is no residential adder. This prospective loss of rooftop options should also be considered as part of the public interest analysis.

V. THE OFFICE OF ATTORNEY GENERAL'S DESIRE FOR A MARKET BASED COMPENSATION APPROACH WOULD VIOLATE THE STATUTE ON ITS FACE.

The OAG discusses the need for "market-based approaches to CSG compensation."¹³ OAG's primary assertion is that "would be to use some form of bidding or auction process in order to base all or part of CSG compensation on the cost developers incur for providing subscriptions to customers."¹⁴ While OAG's approach might yield economically efficient outcomes, their suggestion is incompatible with the statute.

The CSG Statute, Minn. Stat. § 216B.1641 (d), states "The public utility must purchase from the community solar garden all energy generated by the solar garden. The purchase shall be at the rate calculated under section 216B.164, subdivision 10, or, until that rate for the public utility has been approved by the commission, the applicable retail rate."¹⁵ Section 216B.164, subdivision 10 is the VOS rate.¹⁶ So the statute requires that gardens are paid the VOS rate. Regardless of whether the OAG's market based approaches are intelligent, economically efficient, used in other states, etc., the Commission is required to have this program's rate be the VOS and not a

¹² See Minn. SF 1937; See also HF 234 & HF 235.

¹³ COMMENTS – FILING LETTER AND AFFIDAVIT OF SERVICE, OAG-RUD Docket No. E-002/M-13-867, Doc. Id. 20174-130897-01 at 5 (Apr. 18, 2017).

¹⁴ *Id.* at 7.

¹⁵ Minn. Stat. § 216B.1641 (d).

¹⁶ See Minn. Stat. § 216B.164, subd. 10.

competitive bidding process. In order to transition to the OAG’s suggestion, the state legislature would have to amend the CSG Statute.

What separates the concept of a residential adder from a “market-based approach” is the other guiding principles within the statute. Subdivision (e) (1) states the following:

The commission may approve, disapprove, or modify a community solar garden program. Any plan approved by the commission must:

- (1) reasonably allow for the creation, financing, and accessibility of community solar gardens;

[...] ¹⁷

This language can at times seemingly contradict other portions of the statute, like the VOS rate requirement. But the Commission is tasked with making a program that will yield CSGs that are accessible for all subscriber classes. This is the guiding principle of this statute, and a CSG residential adder that would go on top of the VOS rate is not mutually exclusive with the statute’s express requirement to use the VOS rate. ¹⁸

The OAG’s suggestion, however, will not necessarily result in any CSGs and it does not use the VOS rate. It actually impinges upon two different portions of the CSG statute without providing justification for why it would be permissible. For those reasons, the OAG’s additional recommendations should be rejected.

There are a few exceptions, however. The OAG’s conception of the Time of Use VOS could warrant a separate docket for consideration, as could their desire for adding additional value on top of the VOS for additional power system services that the CSGs provide to the grid. ¹⁹ The VOS could serve as the generally accepted base amount for the value that solar provides to the utility, society and ratepayers, and the power system or TOU benefits could be compensated in addition to the base VOS rate. Having additional value on top of the current VOS could be the necessary bump this program needs to be sustainable, and to start moving gardens towards the metropolitan load centers where land prices are higher. Most importantly, it could work within the framework of the pre-existing VOS methodology.

¹⁷ Minn. Stat. § 216B.1641 (e) (1).

¹⁸ Without this principle the statute would be rendered useless, which clearly was not the Legislature’s intent in passing it.

¹⁹ COMMENTS – FILING LETTER AND AFFIDAVIT OF SERVICE, OAG-RUD, Docket No. E-002/M-13-867, Doc. Id. 20174-130897-01 at 10-13 (Apr. 18, 2017).

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Thank you for providing MnSEIA with the opportunity to comment on this critical issue facing the residential solar market. For the reasons above, we request that the Commission disregard Xcel and OAG's arguments against the DOC's residential adder. The Commission should adopt the \$.025/kwh Residential Adder without the DOC's stepdown approach, and should instead periodically check in on the adder amount to ensure it is sufficiently encouraging residential CSGs.

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David Shaffer, esq.
General Counsel
MnSEIA
Email: dshaffer@mnseia.org
Phone: 612-849-0231