

February 22, 2016

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

RE: Reply Comments on Xcel Energy's 2015 Biennial Distribution Grid Modernization Report –
Docket No. E002/M-15-962

Dear Mr. Wolf:

Fresh Energy respectfully submits the following comments in response to the Minnesota Public Utilities Commission's ("Commission") November 17, 2015 notice of comment period on Xcel Energy's 2015 Biennial Distribution Grid Modernization Report. In this reply, we respond to the Department of Commerce – Division of Energy Resources' ("Department") initial comments and to comments by parties on certification and rulemaking.

Response to the Department's Comments on Auctions for Interconnection Points

While Fresh Energy is pleased that the Department recommends a distribution system study to identify optimal locations for distributed energy resources, the Department's specific recommendation to auction such points to third-parties cannot currently be implemented with available distribution information, is untested, and would likely impede distributed energy resource ("DER") deployment while incurring additional administrative costs to ratepayer costs. **We recommend that the Commission not adopt the Department's distribution system location auction concept.**

The Department comments that the addition to Minn. Stat. § 216B.2425 Subd. 8 should result in distribution system studies identifying DER interconnection points and should also strive to include a mechanism that values the relative benefits of DER at different interconnection points.¹ Fresh Energy and the Minnesota Center for Environmental Advocacy (MCEA) also concluded in our initial comments that statute requires distribution system plans that include hosting capacity analysis, which EPRI defines as determining the amount of DER each location on a circuit can accommodate without impacting power quality or reliability. This information should be accessible to customers, developers, and other market participants.

In addition, the Department recommends allocating the DER interconnection points through an auction where non-utility DER providers or customers with DER would pay for the opportunity to interconnect beyond the interconnection costs identified through the existing interconnection process in the following manner:

Regarding the outputs of a study identifying interconnection points on their distribution systems for small-scale distributed generation resources, one question is how to most efficiently allocate the identified interconnection sites and ensure that they are used. Currently it is common for a "queueing" process to be used essentially, a first-come, first-served basis. However, such a process rewards being first in line—acting quickly—rather than the ability to

¹ Dept. comments at 15.

bring a project on-line. Therefore, the Department recommends that the Commission consider requiring utilities that request cost recovery of distribution assets through a rider to identify interconnection points on their distribution systems to also propose a process to auction off the resulting interconnection points—with the winning bidder granted control of the interconnection point for a reasonable, but limited duration.

This approach would help ensure that costs recovered through the rider are reasonable and would allocate the interconnection potential in an economically efficient manner and provide an incentive for the interconnection potential to be used. If a bidding process establishes that there is no interest in acquiring interconnection potential, then the interconnection potential should revert to the utility. The Department welcomes reply comments from the potentially impacted utilities regarding this and any other potential methods for allocating interconnection potential in an economically efficient manner.²

While the Department's auction concept may be an elegant economic theory in the abstract, it is not practically feasible and would likely discourage DER deployment as described below.

The Department's auction concept is not practically feasible. In order to institute the auction concept, a DER provider or customer would need to know their interconnection costs in order to know what to bid for a specific location. Yet, the vast majority of the interconnection costs are not known until after an interconnection application has been submitted and reaches *Step 5: Study Results and Construction Estimates* in the statewide interconnection standard. Actual interconnection costs will vary up to the end of the interconnection process. Moreover, since the state is just now gaining experience with larger-scale DG systems in Minnesota that have required detailed estimates in Step 5, there is little information on which to estimate likely interconnection costs for larger systems.

Further, to make an educated bid in such an auction DER provider or customers would need information on the hosting capacity, load, and other systems waiting to interconnect on a given substation. As we have argued in this docket, this information should be made available but it is currently not.

The Department's auction concept would also likely have the unintended consequence of discouraging DER deployment. Under interconnection standards across the country – including Minnesota's – the applicant is allowed to pay for any upgrades performed by the utility needed to bring the applicant's system online. To reduce costs, DER providers seek the right hosting property, interconnection point, and system size to maximize production subject to engineering constraints and upgrade costs. Requiring applicants to also pay to access optimal locations, which are still unknown, as the Department proposes, appears to contradict the cost causation principles of interconnection practices. Adding this additional cost to DER installation would serve to discourage DER deployment. Perversely, such an auction could see the highest interconnection costs for the interconnection points that would provide the greatest system-wide benefit.

The Department's auction concept also creates a competitive disadvantage between third parties and utilities, as utilities would not need to pay to access interconnection points for their projects.

² *Id.*

If interconnection queue congestion is the primary issue the Department seeks to prevent through its proposal, there are better options. For example, the trend in other states and Regional Transmission Organizations (“RTOs”) is to utilize a system that puts sufficient requirements on applicants (such a tighter applicant project deadlines and earlier payments) while also adding mechanisms to better enforce utility/RTO interconnection step timelines. A better solution to queue congestion is to move in this direction.

Finally, it is worth noting that Fresh Energy is not aware of any utilities nationally employing any type of auction framework that adds additional costs to DER.

Certification

Though we have proposed changes and additions to Xcel Energy’s proposed Advanced Distribution Management System (ADMS) project, we continue to recognize the value in these grid modernization projects. We recommend that the Commission allow Xcel Energy to work with stakeholders and provide additional information on the proposed projects in a subsequent filing. While there are important questions about the certification process of grid modernization projects moving forward, Fresh Energy does not believe a rulemaking process is required at this time. If the Commission determines rulemaking is required, we urge the Commission to allow Xcel Energy to move forward with the proposed projects while the rulemaking process is underway.

s/ Holly Lahd
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