

May 6, 2016

*Via Electronic Filing*

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

**Re: In the Matter of a Commission Inquiry into Fees Charged on Qualifying Facilities**

**Reply Comments of the Institute for Local Self-Reliance / Docket No. E999/CI-15-755**

Dear Mr. Wolf:

The Institute for Local Self-Reliance (ILSR) submits these Comments in response to the Commission's **December 23, 2015**, Notice Seeking Comments.

The Institute for Local Self-Reliance concurs with several other commenters that the fees being assessed are in violation of statute. The statutory language seems clear that discriminatory fees are impermissible.

Beyond the issue of permissibility, however, is the issue of reasonableness, which will be important in this docket and related Commission proceedings in the coming months. While statute often narrowly prescribes the term, the term "reasonable" ought to also be considered in light of the broader changes taking place in the electricity system.

For example, Commission staff published a report on March 24 that, among other things, offered a definition of grid modernization. It includes, "the integration of variable renewable electricity sources and distributed energy resources," a reflection of the principles stated in Minnesota's Cogeneration and Small Power Production statute to give "the maximum possible encouragement to cogeneration and small power production consistent with protection of the ratepayers and the public."

Targeted fees on qualifying facilities can hardly be considered consistent with "maximum possible encouragement," especially when there has been so little evidence presented by the state's electric utilities that such fees reflect a full and accurate accounting of the costs and benefits of such facilities. A regulatory tool does exist to fulfill this purpose, called the value of solar tariff, but no utility has yet opted to use it.

Consider also the term "reasonable" in terms of good rate design practices. Much like the tax code, good rate design benefits from transparency and from reflecting the principles of the system it serves. In past decades, utility customers had little control over their energy bill. Flat or even declining block rates encouraged greater consumption. In an era of ever-growing energy demand and improving economies of scale, this was an acceptable social compact.

What's reasonable has changed. Marginal costs for new power generation are much higher, and the economic advantage of conservation and efficiency much greater. The ratio of peak to average demand is rising, making the system increasingly inefficient. Self-supply at the retail

point of use through distributed generation is competitive with utility supply to the same point. New technology, from smart thermostats to smart phones to rooftop solar, is giving customers unprecedented choice. Non-infrastructure solutions are proving less expensive than traditional substation or wires upgrades, such as when ConEdison in New York was able to defer a \$1 billion substation upgrade for at least a decade through a \$200 million investment in distributed energy and demand management.

In light of the opportunity for distributed and non-utility tools to provide cheaper solutions to traditional capacity and energy problems, one-off fees on qualifying facilities are unreasonable. They reflect a knee-jerk reaction to change—reflected in inconsistent and incomplete rationale—rather than a thoughtful and transparent approach to appropriate rate design. Targeted fees on customer generators also send a clear message: “We aren’t willing to consider how behavior in your interest could also be in our interest.”

To an extent, this reaction reflects the slow and conservative nature of the electric utility business. Electric utilities are often as unprepared for the rapid technological changes in efficiency or solar as were typewriter manufacturers or landline phone companies were for computers or cell phones. But such a lack of preparation is not an excuse to penalize customers whose own investment of capital can offer system benefits greater than their compensation, as suggested by the premium of Xcel’s 2016 value of solar price over its residential retail rate.

What’s reasonable has changed. It’s reflected in next week’s Commission-hosted stakeholder meeting on Alternative Rate Design for Xcel Energy, one of the six utilities named in this docket. A number of industry experts will be in attendance, not to explain how to curtail customer-owned generation, but how to incorporate the choices that customers will inevitably exercise into a transparent and rational rate structure.

The utility-imposed fees on distributed generation are not permissible. More importantly, they are fundamentally unreasonable, both in their specific rationale and in the spirit of proper rate design.

We respectfully recommend that the Commission order that all utilities are not permitted to charge these monthly fees, that revised tariffs must be submitted without these fees, and that utilities refund to customers all assessed fees.

/s/ John Farrell

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