

**BEFORE THE
PUBLIC SERVICE COMMISSION OF WISCONSIN**

Application of Wisconsin Electric Power Company,
as an Electric Public Utility, for Approval to
Implement a Solar Now Pilot Tariff and a Dedicated
Renewable Energy Resource Pilot Tariff

Docket 6630-TE-102

**WISCONSIN ELECTRIC POWER COMPANY'S
COMMENTS ON STAFF MEMORANDUM**

I. Introduction.

Wisconsin Electric Power Company (“Wisconsin Electric”) thanks Staff for its analysis of the Company’s proposed Solar Now and Dedicated Renewable Energy Resource (“DRER”) Pilots. Wisconsin Electric developed these Pilots in response to its customers’ growing interest in energy production from low cost and clean renewable resources while ensuring that non-participating customers are not harmed. This customer interest is not surprising at all — the cost of renewable technologies has declined dramatically in the past decade. The proposed DRER Pilot mirrors Madison Gas and Electric’s renewable tariff that was approved by the Commission last year and the Solar Now Pilot is similar to renewable energy programs that have been approved in other states.¹

If approved, these pilots will allow Wisconsin Electric to partner with commercial and industrial customers to invest in low cost renewable energy in Wisconsin that will help meet Wisconsin Electric’s future capacity needs. The Solar Now Pilot will enable interested municipal, school district and nonprofit customers to lease their rooftops or other property to

¹ Commissions in other states such as Arizona and Virginia have approved similar tariffs. *See, e.g., Order, In rel. Arizona Public Service Company for Approval of Its 2015 Renewable Energy Standard Implementation Plan for Reset of Renewable Energy Adjustor*, Docket No. E-01345A-14-0250 (Dec. 23, 2014); *Order, Application of Virginia Electric and Power Company for approval of a Community Solar Program and for certification of proposed solar generation facilities*, Docket No. PUE-2011-00117 (Nov. 28, 2012).

facilitate renewable development and take advantage of federal Investment Tax Credits, which they cannot do if they own eligible renewable resources. The Solar Now Pilot will also allow Wisconsin Electric to gain valuable experience operating distributed solar generation in Wisconsin and learn how to integrate such systems with its existing distribution system. If approved, the Solar Now Pilot will add only 35 MW to the Company's approximately 6,100 MW generating portfolio. The Solar Now Pilot will also help meet the Company's capacity needs at a modest cost — approximately \$7 million in the first year, which equates to less than 0.25% of Wisconsin Electric's total revenue requirement. The DRER Pilot is designed to enable customers to participate in the full benefits and costs of renewable ownership, while taking advantage of the economies of scale offered by utility-scale development of renewable resources.

Wisconsin Electric has received several letters of support from customers for these proposed pilots. Copies of these letters are attached as Exhibit A.

Wisconsin Electric's comments on the Staff memorandum focus on four issues.²

- Ownership of Renewable Resource Credits ("RRC") for Solar Now and DRER Pilots. While Wisconsin Electric informed Staff and intervenors of this change earlier this month, Wisconsin Electric now formally proposes a modification to the Solar Now Pilot to enable participating customers to own the RRCs generated by the solar facilities that they are hosting on their rooftops and vacant land. If desired, Wisconsin Electric will transfer those RRCs to the participating customer and their value will be reflected in the lease payment. Wisconsin Electric also proposes to modify the DRER Pilot to allow customers to receive all of the RRCs

² Staff raises a threshold question of why, if Wisconsin Electric could enter into rooftop leases without Commission approval, the Commission needs to act on the Solar Now Pilot at all. (Staff Memo at 5-6). The simple answer is that Wisconsin Electric does not want to embark on a significant — and, for Wisconsin, novel — program like Solar Now without first working with the Commission to ensure that it is reasonable and prudent for all of Wisconsin Electric's customers.

generated from their dedicated renewable resources, eliminating a limit on that ownership.

- Deferral of Solar Now costs. Wisconsin Electric agrees to Staff's proposed conditions for deferral of the costs the Company will incur to implement Solar Now.
- DRER Pilot—Staff's proposed capacity credit value change. Staff has proposed to lower the value of capacity credits provided to participating customers under the DRER. Wisconsin Electric opposes this change since it would harm participation in the program, disincentivize investment in renewable energy and potentially result in cross-subsidization to non-participating customers.
- Third-party ownership and other issues raised in public comments. While outside the scope of this proceeding, Wisconsin Electric will briefly address the public comments filed in this docket, which express a preference for third party ownership models that are not authorized under Wisconsin law and raise a host of extraneous issues.

II. Wisconsin Electric proposes amendments to the Solar Now and DRER Pilots that will allow customers to obtain the full benefit of RRCs generated by their hosted or subscribed renewable facilities.

As originally proposed, Wisconsin Electric would have retained ownership of RRCs generated by facilities installed under the Solar Now tariff. However, as Wisconsin Electric has discussed the Solar Now Pilot with customers, one common theme has been that customers would like the option of taking ownership of the RRCs generated by their hosted solar facilities.³ This change would allow these customers to effectively use the output of the hosted facilities to meet their renewable energy goals and “green targets.” In response to these requests, Wisconsin

³ This concern was also raised in one of the public comments filed in this case. (PSC Ref. No. 354334, at 3).

Electric proposes to amend the Solar Now Pilot to give participating customers the opportunity—but not the obligation—to purchase the RRCs.

For customers who choose to take ownership of the RRCs, their value will be reflected in the lease payment. The value will be set at the outset of the contract at the then-current market price for such credits and will not change during the twenty-year-plus term of the service agreement. Each month, this price will be multiplied by the number of RRCs generated by the hosted solar facilities in the prior month, and the lease payment due to the customer under Solar Now will be reduced by that amount. The RRCs will be transferred to the customer, who will have legal title to them and may use them in whatever way suits their needs; Staff’s memo sums it up nicely by saying that this will “enable[] the customer to make the official claim that they are using the renewable energy from the designated resource(s).” (Staff Memo p. 12).

For customers who choose not to own the RRCs, their lease payments will not be offset by the value of the RRCs, and Wisconsin Electric will retain ownership of the RRCs.

A redlined version of the Solar Now tariff reflecting these changes is attached as Exhibit B.

Finally, Wisconsin Electric also proposes a change to the DRER Pilot to give customers the full benefit of RRCs. As originally proposed, participating customers would have received ownership of RRCs generated by subscribed facilities up to the amount of energy generated that is eligible for the energy credit. Wisconsin Electric now proposes to allow customers to own all RRCs generated by the renewable resources to which the customer has subscribed.⁴ A redlined version of the DRER tariff reflecting these changes is attached as Exhibit C.

⁴ This concern was raised in one of the public comments filed in this case. (PSC Ref. No. 354334, at 3).

III. Wisconsin Electric does not object to Staff’s conditions on deferral of the cost of Solar Now until the next rate case.

Staff proposes two reasonable conditions for deferral of the costs to implement the Solar Now Pilot that Wisconsin Electric will incur before its next rate case. (Staff Memo at 8). First, Staff proposes that the Commission expressly condition approval of deferral on its being non-binding (*i.e.*, deferral does not guarantee recovery in a future rate proceeding) and for accounting purposes only. Second, Staff asserts that Wisconsin Electric should be required to provide “information and documentation regarding the costs and benefits of its Solar Now program to aid the Commission in its decision making regarding the recovery of the deferral in a future rate case.” Wisconsin Electric does not object to these conditions.

IV. The Commission should reject Staff’s suggested alternative concerning capacity credits under the DRER Pilot.

Under the DRER, participating industrial and commercial customers will pay the capital and operations and maintenance costs associated with a designated portion of a utility-scale renewable energy resource, and will receive payment for the capacity and energy value associated with their ownership share in the resource. Thus, participating customers will share in both the costs and benefits of the resource as if they owned the resource directly. This structure also ensures that non-participating customers are not in any way subsidizing this renewable investment.

Staff correctly recognizes that the future payments to customers under the DRER will change over time; again, though, this would be the case if the customer owned the resource directly.⁵ To the extent such changes represent a risk, the risk is appropriately placed with the

⁵ Changes in the future benefits received by customers will be driven almost exclusively by the tariff’s energy credit, which will be tied to Locational Marginal Prices. While there may be some year-to-year changes in the amount of capacity accreditation each facility receives to account for actual performance based on the MISO Business Practices Manual, Staff incorrectly asserts that the capacity accreditation formula could be materially impacted by

participating customer rather than the utility's other, non-participating customers. For these reasons, the changes in the market value generated by the resource does not require rejection or alteration of the proposed DRER Pilot.

Wisconsin Electric has proposed that customers who pay for capacity that the utility would otherwise have to build to meet demand and reserve margins should be paid the full avoided cost of that capacity. In other words, under the DRER Pilot such customers would receive a capacity payment based on CONE—the “cost of new entry,” or the full cost of building new, long-term capacity in the MISO footprint.

As an alternative, Staff suggests that the Commission may want to order lower capacity credits for participating customers. Specifically, Staff suggests that the Commission could consider a payment that splits the difference between CONE (*i.e.* the cost of long-term capacity) and the cost of *short*-term capacity, which is based on the results of MISO's annual Planning Resource Auction (“PRA”). The Commission should reject this proposal because, as explained below, it fails to recognize the full contribution of participating customers and results in having participating customers subsidize customers who choose not to participate in the Pilot. Staff's proposal would also be harmful to the success of the Pilot because it could discourage investment in renewables through the DRER.

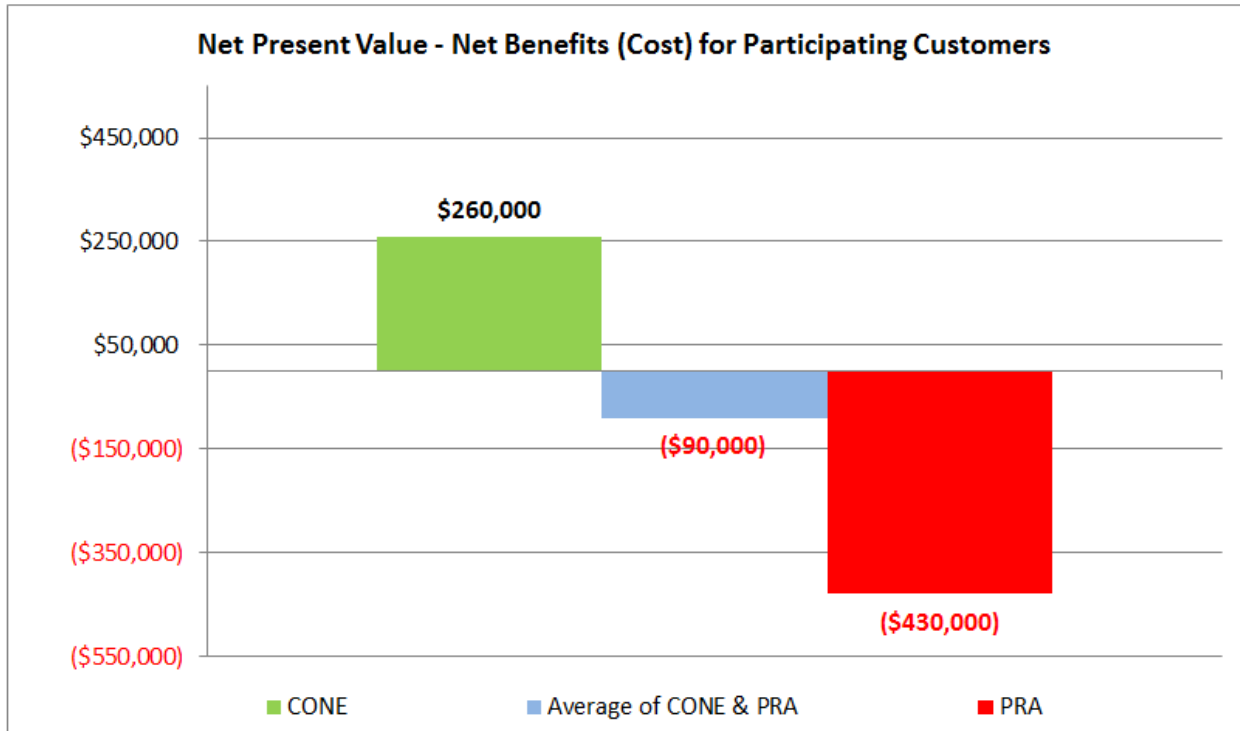
First, accepting Staff's alternative would not adequately compensate participating customers. Customers who pay for renewable resources through the DRER Pilot allow Wisconsin Electric and all of its customers to avoid the cost of that generating capacity. The best estimate of this avoided cost is CONE, which represents the long-term value of installed

the MTEP19 Futures Development Workshop. (Staff Memo at 4). That workshop is focused on how capacity is evaluated for transmission planning and not for resource adequacy planning. This demonstrates why Staff is wrong to assert that the capacity accreditation value could negatively impact the lease payments made to Solar Now participants based on the MTEP19 Futures Development Workshop.

capacity, and that is exactly what Wisconsin Electric proposes to pay to participating customers. Staff's proposal to pay these participating customers something less than CONE is not fair to those customers because it would not only shortchange participating customers, but would also subsidize non-participating customers. Adopting Staff's recommendation would mean that non-participating customers would get the full benefit of the avoided cost of new capacity at an effective discount.

Second, Staff's alternative would discourage investment in Wisconsin-based renewables and make customers less likely to participate in the DRER Pilot. Staff points out that customers must "consider the likelihood of scenarios in which the customer would ultimately improve, lose, or break-even on the customer's investment at the end of the contract period." (Staff Memo, p. 13). Wisconsin Electric agrees that such analysis is important. To that end, the chart below shows the estimated net present value savings or costs for participating customers of three alternatives: setting capacity payments at (1) CONE; (2) the short-term capacity auction price; or (3) splitting the difference. As is shown below, anything other than Wisconsin Electric's proposed capacity payment will result in participating customers *losing* money on a net present value basis over the term of their contracts under the DRER Pilot.⁶

⁶ This chart reflects the "all in" costs and benefits to customers under the DRER Pilot. In other words, it reflects the full cost of "owning" the renewable assets and assumes that payments for energy are at projected market prices.



V. Public comments raise issues that are beyond the scope of this proceeding.

Some members of the public have filed comments in this docket opposing the Solar Now Pilot on grounds that go well beyond the scope of issues presented here. The comments, for example, argue in favor of changing the law regarding third party ownership of distributed generation resources, claim that distributed generation owned by utilities is more expensive than that owned by private developers, advocate changes to Wisconsin Electric’s net metering and distributed generation tariffs, call for changes to interconnection rules, argue for expansion of Focus on Energy programs related to distributed generation, and claim that Wisconsin Electric is attempting to “create a regulated monopoly for distributed generation.” (*See, e.g.*, PSC Ref. Nos. 354334, 354327). The Commission should decline the invitation to turn this docket into generic docket for statewide distributed generation policy.

Wisconsin Electric's Solar Now Pilot proposal will not cause the sky to fall on independent solar developers. Rather, the Pilot promotes an alternative for Wisconsinites to access renewable energy in a way that is consistent with Wisconsin law. Some public comments express dissatisfaction with the current state of the law regarding third party ownership in Wisconsin. If only the law were different, the commenters contend, then alternative financing strategies would be available to customers and make developers' projects more attractive. However, as this Commission held a year ago, "any such determination on a potentially significant change in energy policy in Wisconsin should come from the Legislature rather than from the Commission." Order, *Applicability of Wis. Stat. § 196.01(5)(a) to Third Party Financing of Distributed Energy Resource Systems in Wisconsin*, 9300-DR-102 (Dec. 22, 2017). This docket is not (and, indeed, cannot be) the place to address such issues.

It is unfortunate that certain renewable energy advocates are opposed to Solar Now, which will result in much more rapid expansion of solar energy deployment in Wisconsin than can be achieved by thousands of smaller, residential rooftop installations. Solar Now is not available to residential customers, so developers that focus on that market have nothing to fear from this proposed pilot.

Asserted concerns about competition should not stand in the way of approval, as the proposed pilot programs will give Wisconsin Electric's customers more options for renewable generation, not less. Some of the developers also claim (incorrectly and without basis) that Solar Now will result in higher costs for participating customers. If that is true, then they should have no trouble convincing those customers to buy solar energy systems from them rather than choose the utility's offerings.

VI. Conclusion

Wisconsin Electric's proposed renewable Pilots balance the need of the utility for additional capacity with its customers' interests in access to affordable, locally-based, renewable generation. Thus, for the reasons stated above and in its application, Wisconsin Electric urges the Commission to approve its Solar Now and DRER pilot tariffs, as amended.

Respectfully submitted this 18th day of December, 2018.

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