

## Staff Briefing Papers

<b>Meeting Date</b>	<b>March 5, 2026</b>	<b>Agenda Item 2*</b>	
Company	Northern States Power d/b/a Xcel Energy		
Docket No.	E-002/M-25-386		
	<b>In the Matter of Xcel Energy’s Petition for approval of 2026 Transmission Cost Recovery (TCR) Rider revenue requirements and the resulting adjustment factors by customer class.</b>		
Issues	Should the Commission provisionally approve Xcel Energy’s TCR rate effective January 1, 2026, subject to final review?		
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 <b>Relevant Documents</b>	<b>Date</b>
Xcel Energy-Petition	October 9, 2025
Xcel Energy-Compliance Filing	October 31, 2025
Department of Commerce-Comments	December 10, 2025
Legalelectric-Comments	December 30, 2025
Office Of Attorney General-Comments	January 5, 2026
Xcel Energy-Reply Comments	January 20, 2026

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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.

## I. Background

In 2005, Minn. Stat. § 216B.16, Subd. 7b (the Transmission Statue) was enacted, authorizing the Commission to approve a tariff mechanism for annual adjustment of charges for costs associated with eligible utility investments in transmission, and 2008 this statue was amended to allow inclusion of the costs of certain regional transmission facilities as determined by MISO.

Xcel Energy (Xcel or the Company) filed this petition with the Minnesota Public Utilities Commission (Commission) on October 10, 2025, which included Transmission facilities and MISO Regional Expansion Criteria and Benefits (RECB) costs as authorized under Transmission Statute; Distribution Grid Modernization project costs as authorized under Transmission Statute; costs related to distribution planning, Xcel calls Hosting Capacity Analysis (HCA); and participant compensation costs. Xcel requested approval for recovery of total costs related to any of these categories under a single recovery mechanism, the Transmission Cost Recovery (TCR) rider.

On December 10, 2025, the Minnesota Department of Commerce, Division of Energy Resources (Department) filed comments recommending approval of Xcel's provisional rate reduction to begin January 1, 2025, for Xcel's 2025 TCR Rider Petition.<sup>1</sup>

On December 30, 2025, Legalectric filed comments raising concerns with increased cost of materials as it relates to transmission projects and with Xcel's private "Gen-Tie" projects verse public interest.

On January 5, 2026, Office of Attorney General—Residential Utilities Division (OAG) filed comments with recommendations on AMI costs and allocator updates.

On January 20, 2026, Xcel filed Reply Comments with tracker balance, Hosting Capacity analysis, MISO RECB expense, AMI cost allocator method justification, and participant compensation.

## II. Discussion

### A. Xcel Energy

As seen in Table 1, Xcel Energy requested a \$95.7 million revenue requirement for 2026. The amount is an increase of \$38.3 million as compared to the 2025 TCR petition and driven by TCR True-up along with Sherco to Lyons County. The petition does include 1 newly proposed transmission project Minnesota Energy Connection Sherco to Lyons County.

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<sup>1</sup> In the Matter of Northern States Power Company, doing business as Xcel Energy (Xcel), Petition for Approval of the Transmission Cost Recovery (TCR) Rider Revenue Requirements for 2026, Tracker True-Up, and Revised Adjustment Factors, Docket No. E-002/M-25-386, Letter of the Minnesota Department of Commerce, Division of Energy Resources (Dec. 10, 2025).

**Table 1 - 2026 Forecast Revenue Requirement<sup>2</sup>**

<b>New Distribution-Grid Modernization Projects</b>	
AGIS-ADMS	4,625,270
AGIS-AMI	48,063,119
AGIS-FAN	9,482,373
AGIS LoadSeer	40,494
AGIS-TOU Pilet	677,905
<b>Sub-Total</b>	<b>\$62,889,161</b>
<b>Transmission Projects</b>	
Brookings - 2nd Circuit	5,669,458
Hosting Capacity	162,455
Bayfront to Ironwood	1,141,501
LRTP2 Alexandria-Big Oaks	3,365,525
Sherco to Lyons County	8,399,515
<b>Sub-Total</b>	<b>\$18,738,455</b>
<b>Projects - Total</b>	<b>\$81,627,616</b>
<b>Adjustments</b>	<b>\$14,153,788</b>
<b>Revenue Requirement</b>	<b>\$95,781,404</b>

In prior filings, Xcel allocated costs into two categories: Transmission, using demand allocation factors approved in Companies’ most recent electric rate case, and Distribution Grid Modernization, using distribution allocation factors also approved in the latest rate case. In this filing, the Company proposes a third category for AMI project expense to AMI meter costs.<sup>3</sup>

Table 2 summarizes Xcel Energy’s proposed TCR revenue requirement allocation for its Minnesota Jurisdiction and compares to 2025 implemented factors.

<sup>2</sup> Petition, Attachment 4.

<sup>3</sup> Petition at 9.

**Table 2. 2025 Implemented and 2026 Proposed Adjustment Factors<sup>4</sup>**

	<b>2025 Implemented</b>	<b>2026 Proposed</b>
Total Revenue Requirements	\$57,252,040	\$95,781,404
Residential Rate / kWh	\$0.004442	\$0.007073
Commercial Non-Demand /kWh	\$0.003009	\$0.006524
Demand / kW	\$0.323	\$0.527
Critical Peak Price TOU Pilot / kWh	0.000848	

Xcel plans to provide customer notice as it relates to the change in TCR Adjustment Factors which will be reflected in monthly electric bills. Below is the proposed language:

This month’s Resource Adjustment includes a change in the Transmission Cost Recovery (TCR) Adjustment, which recovers the costs of transmission and distribution investments, including delivery of renewable energy sources to customers. The TCR portion of the Resource Adjustment is \$0.007073 per kWh for Residential Customers; \$0.006524 per kWh for Commercial (Non-Demand) customers; and \$0.527 per kW for Demand billed customers.<sup>5</sup>

Xcel stated that the monthly bill of an average residential customer using 650 kWh of electricity per month would see an increase to their bill of approximately \$1.71 per month compared to the current TCR residential adjustment factor. Xcel’s proposed TCR adjustment factors are calculated assuming they are effective January 1, 2026.<sup>6</sup>

Tables 3 – 5 show Xcel Energy’s updated costs and related cap for the distribution projects. As shown in the Tables, Xcel’s AMI/FAN and ADMS projects do not exceed the established cost caps.

**Table 3. AMI Forecast O&M and Capital - in Millions**

<b>AMI</b>	<b>Pre 2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>Total</b>	<b>Cap</b>	<b>Variance</b>
Capital	\$43.10	\$93.90	\$125.80	\$25.30	\$5.00	\$10.00	\$0.00	\$303.10	\$366.30	\$(63.20)
O&M	\$5.30	\$4.30	\$9.10	\$17.50	\$19.80	\$0.00	\$0.00	\$56.00	\$92.90	\$(36.90)
<b>Total</b>	<b>\$48.40</b>	<b>\$98.20</b>	<b>\$134.90</b>	<b>\$42.80</b>	<b>\$24.80</b>	<b>\$10.00</b>	<b>\$0.00</b>	<b>\$359.10</b>	<b>\$459.20</b>	<b>\$(100.10)</b>

<sup>4</sup> Petition at 10, Table 1.

<sup>5</sup> Petition at 25.

<sup>6</sup> Petition at 10

**Table 4. Fan Forecast O&M and Capital - in Millions**

FAN	Pre 2022	2023	2024	2025	2026	2027	2028	Total	Cap	Variance
Capital	\$19.60	\$45.00	\$9.90	\$12.20	\$6.60	\$1.50	\$1.20	\$96.00	\$98.10	\$(2.10)
O&M	\$0.80	\$0.40	\$0.10	\$0.00	\$0.00	\$0.00	\$0.00	\$1.30	\$6.40	\$(5.10)
<b>Total</b>	<b>\$20.40</b>	<b>\$45.40</b>	<b>\$10.00</b>	<b>\$12.20</b>	<b>\$6.60</b>	<b>\$1.50</b>	<b>\$1.20</b>	<b>\$97.30</b>	<b>\$104.50</b>	<b>\$(7.20)</b>

**Table 5. ADMS Forecast O&M and Capital - in Millions**

ADMS	Pre 2022	2023	2024	2025	2026	Total	Cap	Variance
Capital	\$49.90	\$0.60	\$0.40	\$0.00	\$0.00	\$50.90	\$69.10	(\$18.20)
O&M	\$6.20	\$0.60	\$0.30	\$0.20	\$0.20	\$7.50		\$7.50
<b>Total</b>	<b>\$56.10</b>	<b>\$1.20</b>	<b>\$0.70</b>	<b>\$0.20</b>	<b>\$0.20</b>	<b>\$58.40</b>	<b>\$69.10</b>	<b>(\$10.70)</b>

For 2026, Xcel forecasted expenses under MISO's schedule 26 and 26A at \$147.1 million, with corresponding revenues of \$141.9 million, yielding a net expense of \$5.2 million with \$3.8 million to Minnesota customers. Xcel Energy states that the cost recovery is calculated in accordance with Transmission Statute and complies with previous Commission orders.

Xcel Energy included \$15,397 in their TCR Rider for Participant Compensation related to other proceedings.

## **B. Department of Commerce – Comments**

### **1. Project Eligibility**

The Department reviewed the one new transmission project. Xcel stated this project consists of building a new double-circuit 345 kV transmission line between the current site of the Sherco coal plant near Becker, Minnesota and Lyon County in southwest Minnesota. The Department concludes this project qualifies for recovery under the TCR Statute.

### **2. Distribution Projects and HCA**

The Commission established cost caps for Xcel's AMI, FAN and ADMS, and after reviewing the Department concluded the projects do not exceed current cost caps. For HCA, the Department requested the Company provide the final cost of the project and its impact to the TCR.

### **3. MISO RECB**

As in previous TCR petitions, Xcel proposed to recover the net charges it pays other electric utilities through MISO Schedules 26/26A in the TCR Rider. Net expense for 2026 is estimated at

\$3.8 Million and 2027 is estimated at (\$5.2 million). The Department requested additional information from Xcel as to why 2026 MISO RECB is a net expense, when in recent years have been a net credit. The Department concluded that Xcel complied with the Commission's Order in Docket No. E-002/M-21-814<sup>7</sup>.

#### **4. ROE, Internal Capitalized Labor and Tax Treatment**

Xcel used an return on equity (ROE) of 9.25% which is consistent with the last rate case. Capitalized Labor was to be removed for HCA calculation as ordered by the 2024 TCR Rider order and the Department concluded the capitalized labor costs were removed. The Company also applied the prorated accumulated deferred income tax (ADIT), and the Department found this treatment consistent with prior decisions and notes its customer impact is minimal.

#### **5. Tracker Balances and Tariff Revisions**

Xcel's proposed tracker balance of (\$1.1 million) for 2026 and \$5.3 million for 2027 appear to be reasonable based on the Department's review. The Department requested additional information on the 2025 balance of \$10.4 million, because of the earlier surpluses and 2025 showing a charge. The proposed tariff revisions and customer notices have been reviewed by the Department and approval is recommended.

#### **6. Participant Compensation**

Following enactment of Minnesota Statute 216B.631 in 2023, utilities must compensate eligible intervenors for participation cost in certain proceedings. Xcel included \$15,397 in participant compensation for 2026, and the Department recommends recovery under the State Energy Policy (SEP) Rider.

#### **7. Conclusions and Recommendations**

The Department stated:

An explanation of the imbalance between 2025 revenue requirements and collections, and provide any updated forecasts for its 2025 and 2026 figures if available. Final costs of the Hosting Capacity Analysis project and its impact to the TCR, as promised by the Company in reply comments in the prior year's TCR Rider proceedings Docket No. E002/M-24-371. Additional information on the Company's projection of MISO RECB Sch. 26/26a net expenses in 2026, when the Company has in recent years seen net revenue credits, which it again projects in

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<sup>7</sup> PETITION TRANSMISSION COST RECOVERY RIDER DOCKET NO. E002/M-21-814 Order December 10, 2021

2027. An explanation as to why the Company has chosen to change the allocation method for AMI costs when AMI costs have been included in previous TCR Riders without this allocation method. An explanation for why the “AMI Allocator” is reasonable, including details on the calculation of the AMI Allocator by customer group as shown in Attachment 7.

The Department also recommends the \$15,397 in participant compensation expenses be treated for recovery under the SEP Rider rather than the TCR Rider, consistent with the Commission’s Order in the prior year’s TCR Rider filing in Docket No. E002/M-24-371<sup>8</sup>.

## **C. Legalectric – Comments**

### **1. Material Cost**

Tariffs and related market disruptions have driven substantial escalation in material and construction prices, affecting projects already approved, projects preparing for construction, and those currently pending before the Commission. Transmission projects experiencing cost increases of 25% or greater trigger review under MISO’s Variance Analysis process pursuant to Tariff Attachment FF. That threshold has already been exceeded for the Northland Reliability Project, approved by the Commission on January 23, 2025, with a written Order issued February 28, 2025. Comparable cost escalation is occurring across plant closure, transmission, and solar projects, many of which are now approaching or surpassed the same variance threshold. Legalectric recommended that the Commission should address whether investments in projects with large cost increases are justified, whether the infrastructure proposed makes economic sense, and whether these costs should be borne by the ratepayers.

### **2. Gen-Tie Projects**

The cost of the Sherco “Gen-Tie” (Minnesota Energy Connection) line has risen from \$1.14 billion when applied in October 2023 to \$1.367 billion in this petition which is over a 20% increase. Legalectric refers to Gen-Tie projects as private projects and as such should be funded by shareholders and not ratepayers. These projects also don’t have the benefit of the MISO cost/benefit analysis. Legalectric recommended the Commission to address cost increases both disclosed and anticipated.

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<sup>8</sup> Department of Commerce Comments at 17-18

## D. Office of Attorney General – Comments

### 1. AMI Costs

Xcel Energy proposed change the allocation related to AMI costs. The Office of Attorney General (OAG) recommended the Commission reject the change to allocation for AMI. The OAG agrees the method is imperfect, but Xcel’s proposed change would be a step backwards. Table 6 shows the changes in proposed allocation for AMI.

**Table 6.AMI Cost Allocator Change**

	Residential	Commercial Non-Demand	Demand	Total
AMI Costs 2026 TCR				\$48,063,119
Allocator P60 w/o Lighting %	68.4%	4.2%	27.4%	100.0%
Allocator P60 w/o Lighting	\$32,860,754	\$2,033,070	\$13,169,295	\$48,063,119
2026 Allocator C12WM w/o Lighting %	79.4%	7.4%	13.2%	100.0%
2026 Allocator C12WM w/o Lighting	\$38,152,504	\$3,561,477	\$6,344,332	\$48,063,119
2026 Cost shift (\$)	\$5,291,749	\$1,528,407	-\$6,824,963	
2026 Cost Shift (%)	16%	75%	-52%	

The proposed change would increase Residential class by \$5.3 million and increase Commercial Non-Demand class by \$1.5 million, which represents increases of 16% and 75%, respectively. OAG proposed classifying AMI costs as one-third each customer-related, demand-related, and energy-related.

### 2. Allocator Updates

OAG also proposed that the Commission require Xcel to update their allocators for the TCR Rider to reflect current customer counts, energy sales, and class demand forecast data for this and future TCR Rider petitions. OAG recommended updating allocators with new forecasts to improve alignment of costs.

## E. Xcel – Reply Comments

### 1. Tracker Balance

Xcel Energy provided an update to the 2025 revenue requirements and collections given the 2025 forecasted year-end balance of \$10.4 million. The 2025 balance is a result of the 2024

true-up of the MISO RECB net revenue requirement. The previous Schedule 26A Indicative Annual Charges workbook, a monthly update received from MISO, included expenses forecasted from June 2024 through August 2025 based on the Multi-Value Projects (MVP) charges. MISO used this limited approach intending to best represent the expense assessment, rather than using the load share ratio. This was a change from MISO that resulted in an unintended shift. Going forward, Xcel will resume receipt of the full expense tied to the load ratio share, which is consistent with how the amount was traditionally calculated. This adjustment will help reduce variances in the future and provide more accurate forecasts.

## 2. HCA-Final Costs

Xcel Energy provided an update on final cost of the Hosting Capacity Analysis (HCA) project and the impact on the TCR. The HCA project was completed and placed in-service in 2025. The final costs for this project are included in the Petition attachments and specifically presented on Attachment 3A: CWIP excluding Internal Labor and Attachment 3B: CWIP. The impacts to the TCR are shown on Attachment 4: Annual Tracker Summary. Table 7 shows the HCA initial costs and final costs.

Table 7. HCA Costs

Project	Initial Cost excl Labor	Final Cost excl Labor	2026 Revenue Requirement
HCA	\$1,423,190	\$722,308	\$162,455

## 3. 2026 MISO RECB Expense

The Company provided MISO RECB update as requested by the Department. The timing of the Long Range Transmission Plan (LRTP) projects is the driver of the expense increase in excess of the credit. The nature of these projects and the construction of large transmission lines will incur expenses before producing revenue. Therefore, in 2026, when the LRTP2 Alexandria to Big Oaks project is in active construction there is an increase in Schedule 26A expense with a much smaller increase on the revenue side. Subsequently, for 2027 there will be a large increase of Schedule 26A revenue, so in that period, the revenue requirement will decrease.

## 4. AMI Cost Allocator

Xcel Energy disagreed with the OAG assessment of the allocator change. In previous TCR Rider proceedings, the Company has used the P60 Distribution allocator to allocate AMI and other distribution costs that are recovered under the rider mechanism. This P60 allocator is derived from total distribution plant in service that has been allocated to customer class via customer- and demand-related allocators. To more accurately follow cost causation principles for cost allocation, the Company proposed to use the C12WM allocator from the 2024 Class Cost of Service Study (CCOSS) approved in the Company's 2022-2024 test year rate case (Docket No. E002/GR-21-630) to assign AMI project expenses to customer class.

As discussed in the Petition, Distribution-Grid Modernization costs recovered through the TCR Rider are assigned to NSPM's State Jurisdictions (Minnesota, North Dakota, and South Dakota) using direct assignment, or a general, intangible, customer count, or meter count allocation. In order to allocate to the Minnesota Jurisdiction Classes (Residential, Commercial and Industrial (C&I) Non-Demand, and C&I Demand), the distribution allocation factors approved in the Company's last electric rate case are used to allocate non-AMI Distribution-Grid Modernization costs while the C12WM allocator is used to allocate AMI-meter related costs. Transmission, Distribution-Grid Modernization, and AMI expenses are allocated to classes differently; therefore, Xcel Energy has separately allocated these investments in the TCR Rider.

The Company also addressed the OAG's suggestion that the Company update their forecast for every year for the TCR. The Company monitors the addition to large loads, manages future risk and evaluates potential impacts to the forecast, which they said, there has been no changes large enough to require an updated of that magnitude.

## **5. Participant Compensation**

Xcel Energy agreed with the Department to move \$15,397 of participant compensation from TCR to the SEP Rider.

## **III. Staff Analysis**

Staff has reviewed the TCR filing and the Commission may want to ask parties on their recommendations on AMI allocator and how it will affect final factors. Staff agrees with the approval Xcel Energy's TCR rate effective April 1, 2026, subject to final review.

## **IV. Decision Options**

1. Approve Xcel Energy's TCR rate as proposed minus \$15,397 of Participant Compensation effective April 1, 2026, subject to final review. (Xcel Energy, Department)
2. Reject Xcel Energy's TCR rate as proposed.