

## Staff Briefing Papers

**Meeting Date** June 4, 2026 **Agenda Item \*3**

**Company** Northern States Power Company, d/b/a as Xcel Energy  
(Xcel or the Company)

**Docket No.** E002/RP-24-67

**In the Matter of Northern States Power Company’s, d/b/a as Xcel Energy,  
Petition for Approval of Generator Projects for MISO ERAS 2 Projects**

**Issues** Should the Commission approve the acquisition and construction of the  
Company’s proposed ERAS 2 projects?

Should the Commission approve Xcel’s proposed cost recovery approach?

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✓ **Relevant Documents**

Xcel Energy, Petition (Public and Non-Public)

**Date**

February 20, 2026

Department of Commerce, Comments (Public and Non-Public)

March 19, 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.

## STATEMENT OF THE ISSUES

Should the Commission approve the acquisition and construction of the Company's proposed ERAS 2 project portfolio?

Should the Commission approve Xcel's proposed cost recovery approach?

## BACKGROUND

### I. Procedural Background

On February 20, 2026, Xcel Energy (Xcel or the Company) filed a Petition for approval of two "Commission-verified"<sup>1</sup> self-build Battery Energy Storage System (BESS) projects (Petition), sized at 300 megawatts (MW) each, for which the Company submitted an Expedited Resource Addition Study (ERAS) application to the Midcontinent Independent System Operator (MISO):

- 300 MW/1,200 MWh Nobles BESS, and
- 300 MW/1,200 MWh Sherco South BESS.

This Petition follows several prior related Xcel filings in this docket, noted below:

- July 22, 2025 Letter requesting that the Commission, as the Relevant Electric Retail Regulatory Authority (RERRA),<sup>2</sup> provide verification to MISO in support of an ERAS for several generator projects;
- August 1, 2025 Letter requesting that the Commission, as the RERRA, provide verification to MISO in support of an ERAS for four additional generator projects;<sup>3</sup>
- August 1, 2025 Supplement requesting that the Commission provide verification, as the RERRA, to MISO in support of an ERAS for two additional generator projects;<sup>4</sup>
- September 12, 2025 Letter updating the Commission on the generator projects the

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<sup>1</sup> "Commission-verified" projects are proposed generation resources that the Commission – acting as the Relevant Electric Retail Regulatory Authority (RERRA) – has reviewed and confirmed are eligible to be submitted into the MISO ERAS queue.

<sup>2</sup> The role of the RERRA is to review proposed generation projects and provide verification so that the projects can be included in MISO's ERAS process. Commission verification only confirms the projects' eligibility to enter the ERAS process; it does not constitute final regulatory approval, nor does it serve as a formal finding that the projects are in the public interest.

<sup>3</sup> The four projects were: 300 MW Nobles BESS, 200 MW Sandhill BESS, 300 MW Little Rock Wind/Storage, and 100 MW Benton II Solar plus 300 MW BESS.

<sup>4</sup> The two additional projects were the 200 MW Redwood BESS and the 150 MW Lake Charlotte BESS.

Company requested the Commission to verify as the RERRA to MISO for inclusion in its ERAS process; and

- December 3, 2025 Petition requesting approval of purchase power agreements (PPAs) for three Commission-verified projects for ERAS (ERAS 1 portfolio).

Staff notes that the Commission’s March 25, 2026 Order in Docket No. 24-230 – Xcel’s 2024 Request for Proposals (RFP) docket – approved the acquisition and construction of the Sherco South BESS, as well as Xcel’s proposed cost recovery approach. However, in this Petition, Xcel proposes an alternative configuration for the project’s interconnection, which increased the project’s costs but provides other benefits discussed below; therefore, Xcel requests approval of the Sherco South BESS with the new interconnection configuration and cost estimate.

In the 2024 RFP docket, Xcel planned to use “surplus interconnection”<sup>5</sup> for the Sherco South BESS, meaning it would use the existing, unused interconnection capability at the same point of interconnection without increasing the overall interconnection limit. Now, Xcel proposes to interconnect the Sherco South BESS through MISO, which according to Xcel, offers greater value to both the project and the broader system.

## II. ERAS Process Background

MISO established the ERAS process to accelerate the interconnection study of generation projects that address urgent, near-term resource adequacy and reliability needs. Unlike the standard interconnection queue, the ERAS framework is designed to take a project from application submission to a Generator Interconnection Agreement (GIA) in approximately three calendar months.<sup>6</sup>

A critical component of ERAS eligibility involves the Relevant Electric Retail Regulatory Authority (RERRA). The Petition explained the Commission’s role in this process:

The Commission, acting as the Relevant Electric Retail Regulatory Authority (RERRA), held a Special Meeting on July 24, 2025, to review and verify a portfolio of wind, solar, and storage projects proposed by Xcel Energy, Minnesota Power, and Otter Tail Power for inclusion in the MISO ERAS process. The Commission accepted and delegated authority to issue verification forms for these projects, which are consistent with the utilities’ approved Integrated Resource Plans and

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<sup>5</sup> Surplus interconnection allows new electricity supply resources to connect using the same grid infrastructure that serves already existing generators, which bypasses the often-lengthy standard interconnection queue process. However, since surplus interconnection relies on the unused capability of an existing host facility, surplus service is limited such that the combined output of the existing generator and the new units, operating together, cannot exceed the output allocated to the existing supply resource. Xcel explained that this can limit operational flexibility right when accredited capacity is needed most.

<sup>6</sup> MISO submitted an ERAS proposal to the FERC in March 2025. FERC approved MISO’s tariff revisions on July 21, 2025, and the revisions became effective on August 6, 2025.

Requests for Proposals, and are intended to address urgent resource adequacy and reliability needs in Minnesota. While the Commission's verification confirms the projects' eligibility for the ERAS process, it did not constitute final regulatory approval or a finding that the projects are in the public interest; accordingly, we are now requesting formal Commission approval of these projects.<sup>7</sup>

MISO operates the ERAS process on a quarterly schedule and evaluates projects on a rolling, first-come, first-serve basis. The Federal Energy Regulatory Commission (FERC) recently accepted MISO tariff revisions increasing the number of ERAS projects studied per quarter from 10 to 15 projects for each cycle. The study periods are defined as follows:

- **Q1:** First business day of March through the last business day of May.
- **Q2:** First business day of July through the last business day of August.
- **Q3:** First business day of September through the last business day of November.
- **Q4:** First business day of December through the last business day of February.

Cycle 1 of the ERAS process launched on August 6, 2025, with the first study period beginning on September 2, 2025. Notably, none of the Company's projects proposed for RERRA verification – Nobles BESS and Sherco South BESS – were selected in Cycle 1.

Cycle 2 commenced on December 1, 2025. Applications submitted, but not selected, during the first window automatically carry forward to Cycle 2. The Cannon Falls expansion and Benton Solar II were selected for evaluation during this second cycle. Sherco South, Nobles, Sandhill, and Benton II BESS were selected for Cycle 3, which commenced on March 2, 2026.

### III. Related Resource Acquisition Dockets

In this section, Staff will discuss recent, related resource acquisition proceedings.

Most recently, on April 3, 2026, the Commission issued its Order approving Xcel's proposed ERAS 1 portfolio (ERAS 1 Order), which consisted of three PPAs:

- Cannon Falls Expansion Amendment (45-70 MW), as modified in Xcel's March 17, 2026 filing;
- Sandhill BESS (200 MW / 800 MWh); and
- Benton II BESS (300 MW / 1,200 MWh).

In addition to PPA approval, the ERAS 1 Order authorized Xcel's proposed cost recovery method; required Xcel to show cost increases due to a New Trade Measure Event are just and reasonable; and required Xcel to apply an estimated cost for imputed debt to PPA projects in future resource acquisition filings.

Second, on March 25, 2026, the Commission approved a portfolio of projects that arose out the

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<sup>7</sup> Petition, p. 4.

Company's 2024 RFP, which sought 1,600 MW of wind, solar, storage, and hybrid resources.<sup>8</sup> The 2024 RFP led to a proposed portfolio 768 MW of solar capacity and 855.5 MW / 3,422 MWh of BESS capacity. As noted previously, the 300 MW Sherco South BESS proposed in the instant Petition was one of the projects approved in the 2024 RFP Order, but because Xcel now proposes ERAS interconnection rather than surplus interconnection, Xcel requests Commission approval for the Sherco South BESS as part of the ERAS 2 portfolio.

Third, on March 31, 2026, Xcel filed a petition requesting approval of a portfolio of two wind projects totaling 1,269 MW of generation capacity selected through the Commission-approved Development Transfer acquisition process.<sup>9</sup> The wind projects will reuse interconnection rights from the retiring Sherco coal units.

Fourth, Xcel's acquisition for 800 MW of firm dispatchable resources was approved on February 17, 2026, and the Commission approved the following PPAs:

- **Invenergy – Cannon Falls:** an existing gas-fired facility consisting of two simple cycle combustion turbines (CTs), totaling 357 MW located in Cannon Falls, Minnesota.
- **Onward – Mankato Energy Center (MEC):**
  - an existing, 375 MW gas-fired combined cycle facility, and
  - a separate, 12 MW / 48 MWh BESS.
- **DESRI – North Star Energy:** a new, 100 MW BESS sited at the existing North Star Solar facility located in Chisago County, Minnesota.

## XCEL PETITION

### I. Project Details

Table 1 below provides a summary of the ERAS 2 portfolio projects. Both projects are self-build projects, with Xcel as the developer, and both will be located on approximately 25 acres of existing Company-owned property. Xcel anticipates a Q2 2028 commercial operation date (COD) for the Nobles BESS and a Q4 2027 COD for the Sherco South BESS.

**Table 1. Project Details**

Project	Nameplate Capacity	Location	COD	Project Life	Construction Jobs	Local Tax Payments
<b>Nobles BESS</b>	300 MW / 1,200 MWh	Reading, MN (Nobles Co.)	Q2 2028	20 years	85	\$87 million
<b>Sherco South BESS</b>	300 MW / 1,200 MWh	Becker, MN	Q4 2027	20 years	85	\$124 million

<sup>8</sup> Docket No. 24-230.

<sup>9</sup> Docket No. 23-342.

As noted above, Xcel initially planned to connect the Sherco South BESS using Surplus Interconnection Service, a method that avoids lengthy standard queues by utilizing existing grid infrastructure. However, this service mandates that the combined output of the new and existing generators cannot exceed the host facility's originally-allocated capacity. Xcel explained that by pursuing interconnection through the ERAS process, the Company will be able to secure the following benefits:

- **Performance Certainty:** It guarantees the resource can perform as expected during peak demand and reliability-critical hours without being restricted by a host facility's output.
- **Resource Accreditation:** It provides valuable accredited capacity, which strengthens the project's overall contribution to system resource adequacy.
- **Future Flexibility:** It preserves the project's ability for future expansions.

Importantly, the shift to MISO interconnection will increase the project's costs. Xcel estimated that the incremental capital cost increase associated with the change to an ERAS interconnection is \$26.1 million. The cost increase occurs because securing a separate GIA with MISO requires new, independent network interconnection upgrades. Xcel justified the increase cost by noting that the dedicated 300 MW interconnection delivers roughly \$75 million in incremental system value. Xcel pointed to updated resource modeling, which indicates a need for an additional 3,500 MW of resources by 2030, and operational flexibility during reliability-critical hours.

Regarding the permitting status of the projects, Staff notes that, at the May 21, 2026 Commission meeting, the Commission verbally-approved Xcel's site permit application for the up to 600 MW Sherco South & West BESS.<sup>10</sup>

Staff does not have additional information at this time regarding a site permit application for the Nobles BESS, although it is mentioned in the 2025 Biennial Transmissions Project Report<sup>11</sup> as a potential mitigation solution for congestion at the Nobles County Substation.

## II. EnCompass Modeling

According to Xcel's EnCompass modeling, the ERAS 2 portfolio has a net cost of \$105 million on a Present Value Societal Cost (PVSC) basis and a net cost of \$107 million on a Present Value Revenue Requirement (PVRR) basis.

The Company evaluated the ERAS 2 projects using an updated baseline scenario, which built on previous ERAS 1 modeling and incorporated recent resource updates, including various BESS

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<sup>10</sup> Docket No. E002/ESS-25-319.

<sup>11</sup> Docket No. E999/M-25-99.

projects, PPA extensions, and generic wind and solar resources. The model permitted market purchases for capacity and energy from 2027 to 2029 to balance reserve margins, but, to reduce market volatility exposure, closed market access beginning in 2030, thus requiring that future needs be met through owned or contracted resources.

To calculate the net cost impact of the ERAS 2 portfolio, the Company compared it against the baseline capacity expansion plan using PVSC and PVRR production cost runs. This evaluation utilized the latest load forecasts, updated the costs for the Sherco South BESS project, and factored in assumptions regarding production tax credits. The ERAS 2 projects were forced into the model to generate a capacity expansion plan that could be evaluated against the base case, considering scenarios both with and without future carbon costs.

As noted, the modeling results demonstrated that the ERAS 2 portfolio will have a net cost through 2050 (\$105 million on a PVSC basis and \$107 million on a PVRR basis through 2050). Xcel argued that this cost is reasonable because the added capacity from the Sherco South and Nobles BESS projects will offset the need for other acquisitions, enable more renewable energy additions, and mitigate the risk of needing to purchase higher-priced resources in the future.

Cumulative carbon dioxide (CO<sub>2</sub>) emissions ranged from a minor increase of 0.01 million tons on a PVSC basis to a decrease of 0.22 million tons on a PVRR basis from 2025 to 2040.

### **III. Acquisition Process**

Xcel explained that its resource acquisition process for the ERAS 2 portfolio involved a mix of competitive bidding and indicative pricing from the 2024 RFP to ensure cost-effectiveness.

Xcel detailed that the Sherco South BESS was initially selected through a formal, Commission-approved 2024 RFP. However, in contrast, the Nobles BESS project was not sourced through a competitively bid process. Xcel justified this by noting that the Commission only requires a formal bidding process for resources specifically approved in the Five-Year Action Plan, and the capacity from the ERAS 2 portfolio exceeds those requirements.

Instead of conducting a formal RFP for the Nobles BESS, Xcel evaluated the project by comparing its costs to projects that bid into the 2024 RFP. Xcel stated that even though the Nobles BESS was not competitively bid, it supplements the Company's broader competitive procurement efforts, and using the 2024 RFP pricing ensures the project remains cost-effective for customers.

## **DEPARTMENT COMMENTS**

### **I. Summary**

The Department's conclusions and recommendations are summarized briefly below:

- The Department recommends approval of the acquisition and construction of Xcel's

proposed ERAS 2 portfolio.

- The Department recommends that the Commission implement a soft cost cap on the projects, set at the costs reported in the Petition. Xcel would only be allowed to exceed this cap if it can show that any additional costs were necessary, prudent, and outside of its control.
- Based on Xcel's modeling, the Department concluded that Xcel has a substantial need for additional peaking capacity, particularly for the years immediately following 2030, and the BESS projects could help meet this need.
- The Department concluded that the Minnesota jurisdictional share of the costs for both the Nobles and Sherco South BESS projects qualify for recovery through the RES Rider.
- The Department reviewed the cost increase associated with switching the Sherco South project from a surplus interconnection to an ERAS interconnection. Based on the value of new interconnection rights and a shortage of affordable transmission in the area, the Department found this cost increase to be reasonable.
- Although the Nobles BESS project was not selected through a formal, Commission-approved bidding process, the Department concluded that a separate RFP was not required because Xcel's approach of comparing the project's costs to recent competitive RFP pricing was reasonable.
- The Department concluded that the projects meet state economic development requirements.

## I. Pricing

The Department considered the trade-off between the value of shifting to MISO interconnection and the resulting cost increase. Ultimately, the Department concluded that the cost increase was reasonable because historical data from the MISO West Study Area indicates a severe shortage of affordable transmission, with an upper affordability limit of roughly \$250,000 per MW.

The Department also noted that the Sherco South BESS was originally selected through Xcel's formal, Commission-approved 2024 RFP bidding process. Even after incorporating the estimated cost increase from the 2024 RFP to the Petition, the Department concluded that the pricing for the Sherco South BESS is reasonable.

For the Nobles BESS, which was not selected through a formal bidding process, Xcel evaluated the project by comparing its pricing to the pricing obtained in the 2024 RFP. The Department concluded that referencing the 2024 RFP to establish current market pricing was a reasonable approach. Therefore, the Nobles BESS demonstrates competitive pricing, which, for the

purposes of cost recovery, helps satisfy statutory requirements by showing the project will improve project economics.

## II. Cost Recovery

Xcel requested cost recovery for the ERAS 2 projects through the RES Rider under Minn. Stat. § 216B.1645. The Department evaluated this request using a two-step statutory test:

1. verifying the expenses are directly related to a renewable project, and
2. ensuring they meet specific objectives like improving project economics or facilitating transmission.

The Department confirmed that the Nobles BESS meets these criteria because it: (1) provides storage for the existing Nobles Wind Farm; (2) captures energy that would otherwise be curtailed; and (3) assists with transmission coordination.

Likewise, the Department confirmed that the Sherco South BESS also qualifies under the RES Rider.

The Department also recommends the Commission limit cost recovery to a soft cost cap:

Based upon the Commission's decision in Docket No. E002/M-24-230, the Department recommends the Commission limit cost recovery for the projects in Xcel's proposed ERAS Portfolio 2 to a soft cost cap set at the cost reported by Xcel in the Petition. Also, the Department recommends the Commission authorize Xcel to request Commission approval to exceed the cost cap if the Company proves that any costs incurred above the cap were necessary and prudent and outside the Company's control.<sup>12</sup>

## III. Modeling Review

The Department's need analysis relied on Xcel's updated EnCompass modeling, and the Department's modeling review is summarized below.

### A. Model Verification and Matching

The first step of the Department's modeling evaluation involved a "matching" process to verify Xcel's EnCompass modeling inputs and outputs. The Department successfully matched Xcel's results across four distinct scenarios—PVRR and PVSC inputs with and without the ERAS 2 portfolio additions.

### B. Updated Inputs and Identification of Need

Xcel updated the EnCompass base case by locking in recently-approved projects (such as solar

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<sup>12</sup> Department comments, p. 16.

additions and other BESS units), updating the load forecast to version 2025v2, and eliminating the model's ability to purchase spot market capacity or energy beginning in 2030.

Based on this modeling, the Department calculated Xcel's resource needs. While Xcel has sufficient acquired capacity to satisfy its action plan period through 2030, EnCompass projects a significant shortfall immediately afterward, identifying a need for 600 MW of generic BESS in 2031 and 374 MW of generic CT units in 2032 and 2033. Thus, the Department concluded that Xcel has a demonstrated need for the peaking capacity that the ERAS 2 portfolio would provide.

### *C. Benefits, Costs, and Modeling Limitations*

The EnCompass model results showed that adding the ERAS 2 portfolio increased both PVRR (by \$107 million) and PVSC (by \$105 million) over the study period. However, the Department emphasized that the model compares the cost of actual, specific projects against generic, theoretical units. Because the real-world cost of new projects is substantially higher than the generic unit costs assumed in the model, the Department determined that this direct cost comparison is unlikely to be valid. As discussed previously, compared to projects in the 2024 RFP, the ERAS 2 projects' costs appear to be reasonable.

The model also revealed that incorporating the BESS portfolio increases the energy output from Xcel's wind and solar units, reduces the utility's spot energy market sales, and increases its spot energy market purchases. This indicates that the model uses the added battery capacity to significantly reduce wind and solar curtailments while also reducing Xcel's sell-side energy market risk.

However, the Department noted that one limitation of EnCompass modeling is the ability to accurately reflect curtailment from specific facilities. This is because EnCompass simplifies the system and does not account for locational differences and transmission constraints. In the model, curtailment is triggered globally when total must-run generation exceeds total load plus energy market sales. This makes it impossible to know whether the curtailment reductions estimated by EnCompass for these specific BESS locations are accurate or will actually be realized.

Nevertheless, the Department ultimately concluded that the overarching benefits of the ERAS 2 portfolio outweigh the costs and associated risks, primarily because Xcel faces a significant capacity need in the near-term. Attempting to acquire all of this capacity at once carries substantial risk that affordable projects will be unavailable, so acquiring the Nobles and Sherco South BESS projects now effectively mitigates Xcel's market risk.

## **IV. Acquisition Process**

While the Sherco South BESS was selected through Xcel's Commission-approved bidding process – the 2024 RFP – the Nobles BESS was not; the Department found this acceptable because the project will provide capacity in excess of the requirements in Xcel's Five-Year Action Plan, and the IRP Order did not require a separate RFP for resources beyond the five-

year action plan. The Department determined:

While it would be preferable for the Nobles BESS project to have been selected via a competitive process, that is not required. Thus, the Department concludes that reference to projects in a recently completed RFP as evidence of current market pricing is reasonable in this instance.<sup>13</sup>

## V. Economic Development

Minn. Stat. § 216B.1691, subd. 9 (a) describes reasonable actions the Commission must take to maximize net benefits to all Minnesota citizens.

1. the creation of high-quality jobs in Minnesota paying wages that support families;
2. recognition of the rights of workers to organize and unionize;
3. ensuring that workers have the necessary tools, opportunities, and economic assistance to adapt successfully during the energy transition, particularly in environmental justice areas;
4. ensuring that all Minnesotans share (i) the benefits of clean and renewable energy, and (ii) the opportunity to participate fully in the clean energy economy;
5. ensuring that statewide air emissions are reduced, particularly in environmental justice areas; and
6. the provision of affordable electric service to Minnesotans, particularly to low-income consumers.

The Commission's IRP Order required Xcel to "work with parties representing organized labor to maximize socioeconomic benefits to customers and host communities by prioritizing creation of high-quality jobs and apprenticeship pathways for local workers in the implementation of projects and programs included in the resource plan."<sup>14</sup> In addition, the Commission required Xcel to "work with the Environmental Justice Advisory Board to better understand how to prioritize and incentivize investments and economic benefits for underserved communities."<sup>15</sup>

The Department concluded that the projects meet the requirements for economic development under Minn. Stat. § 216B.1691, subd. 9(a) and the 2024 IRP Order.

## VI. Recommendations

Based on its analysis of the modeling and the statutory requirements, the Department recommended that the Commission:

1. Approve the acquisition and construction of the Company's proposed ERAS 2 Portfolio.

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<sup>13</sup> Department comments, p. 15.

<sup>14</sup> 2024 IRP Order, Order Point 26.

<sup>15</sup> 2024 IRP Order, Order Point 27.

2. Approve RES Rider recovery for the Minnesota jurisdictional portion of the proposed ERAS 2 Portfolio projects' costs.
3. Determine that the Minnesota jurisdictional share of the costs of the Nobles BESS project qualify for recovery via Xcel's RES Rider.
4. Determine that the Minnesota jurisdictional share of the costs of the Sherco South BESS project qualify for recovery via Xcel's RES Rider.
5. Limit cost recovery for the projects in Xcel's proposed ERAS Portfolio 2 to a soft cost cap set at the cost reported by Xcel in the Petition.
6. Authorize Xcel to request Commission approval to exceed the cost cap if the Company proves that any costs incurred above the cap were necessary and prudent and outside the Company's control.

#### **STAFF DISCUSSION**

Staff notes that Xcel did not file reply comments responding to the Department's analysis or recommendations, suggesting that the Company supports all of the Department's recommended Commission actions. Therefore, Staff used the Department's recommendations – with one slight modification, which combined numbers 5 and 6 above – as the Commission's decision options and indicated joint support between Xcel and the Department for all recommendations.

Staff does not oppose any of the Department/Xcel joint recommendations.

### DECISION OPTIONS

1. Approve the acquisition and construction of the Company's proposed ERAS 2 Portfolio. *(Department, Xcel)*
2. Approve RES Rider recovery for the Minnesota jurisdictional portion of the proposed ERAS 2 Portfolio projects' prudent costs. *(Department, Xcel)*
3. Determine that the Minnesota jurisdictional share of the prudent costs of the Nobles BESS project qualify for recovery via Xcel's RES Rider. *(Department, Xcel)*
4. Determine that the Minnesota jurisdictional share of the prudent costs of the Sherco South BESS project qualify for recovery via Xcel's RES Rider. *(Department, Xcel)*
5. Limit cost recovery for the projects in Xcel's proposed ERAS Portfolio 2 to the cost reported by Xcel in the Petition unless the Company proves that any costs incurred exceeding the cap were necessary, prudent, and outside the Company's control. *(Staff modification to Department/Xcel recommendation)*