MINNESOTA
PUBLIC UTILITIES COMMISSION

Staff Briefing Papers

Meeting Date	March 2, 2023	Agenda Item **1

Company: Xcel Energy (Xcel or the Company)

Docket No.: E002/M-20-620

In the Matter of a Petition from Northern States Power Company, d/b/a/ Xcel Energy, for Approval of Updated Pricing for the Border Winds and Pleasant Valley Wind Repowering Projects

Issues

1. Should the Commission approve capital costs higher than previously-approved in this proceeding for the Border Winds and Pleasant Valley wind repowering projects?
2. Should the Commission continue to allow Xcel Energy to pursue cost recovery of the Border Winds and Pleasant Valley wind projects in a future Renewable Energy Standard Rider filing?
3. Should the Commission require Xcel to refund ratepayers if wind production tax credits (PTCs) are less than what the Company assumed in its October 14, 2022, Pricing Update?

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✓ Relevant Documents	Date
Commission Order	**January 22, 2021**
Xcel Energy, Supplemental Filing – Pricing Update (Public and Non-Public)	**October 14, 2022**
Department of Commerce, Comments (Public and Non-Public)	**November 14, 2022**
Xcel Energy, Reply Comments (Public and Non-Public)	**November 28, 2022**
Department of Commerce, Response Comments	**February 2, 2023**
Xcel Energy, Reply to Response Comments	**February 17, 2023**

STATEMENT OF THE ISSUES

1. Should the Commission approve capital costs higher than previously-approved in this proceeding for the Border Winds and Pleasant Valley Wind repowering projects?

2. Should the Commission continue to allow Xcel to pursue cost recovery of the Border Winds and Pleasant Valley wind projects in a future Renewable Energy Standard Rider (RES Rider) filing?

3. Should the Commission require Xcel to refund ratepayers if wind production tax credits (PTCs) are less than what the Company assumed in its October 14, 2022, Pricing Update?

BACKGROUND

On September 29, 2020, Xcel filed a Petition for Approval of a 720-megawatt (MW) Wind Repower Portfolio, which included seven proposed repowering projects—four self-build projects and three power purchase agreements (PPAs) with developers.[1] The Company's self-build portfolio proposed repowering the company-owned Grand Meadow, Nobles, Border Winds, and Pleasant Valley facilities. Border Winds and Pleasant Valley are shown in bold and italicized font in Table 1 below.

Table 1: Xcel Self-build Portfolio

Project	Location	Size (MW)	Placed in Service	Repower COD	Project Life
Grand Meadow	Mower County, MN	100.5	2008	2023	20
Nobles	Nobles County, MN	201	2010	2022	25
Border Winds	***Rolette County, ND***	***150***	***2015***	***2024***	***25***
Pleasant Valley	***Mower County, MN***	***200***	***2015***	***2024***	***25***

Economic modeling using the Encompass software presented in the September 29, 2020 petition indicated that the Wind Repower Portfolio would result in approximately $260 million in net benefits on a present value of societal cost (PVSC) basis, and $163 million on a present value of revenue requirement (PVRR) basis.

The Commission approved Xcel's Wind Repower Portfolio on January 22, 2021. The order authorized Xcel to recover the costs of each self-build repowering project, including the existing rate base on each existing facility; however, the Commission determined that any recovery through the Renewable Energy Standard Rider (RES Rider) will require a separate Commission

[1] On December 11, 2020, Xcel filed a letter notifying the Commission that the West Ridge and McNeilus PPAs would not be moving forward.

determination that the projects are eligible.

Xcel was required to make a compliance filing by June 30, 2021, providing an update on the status of the projects. That compliance filing stated the commercial operation date (COD) for the Border Winds and Pleasant Valley repowering projects will be extended by one year, from December 2024 to December 2025, to optimize production tax credit (PTC) benefits. (Xcel must also file quarterly reports, until the projects are in service, on whether there are any project failures.)

SUPPLEMENTAL PETITION

Border Winds and Pleasant Valley have experienced significant cost increases since January 2021, and in an October 14, 2022, Supplemental Petition, Xcel requested the Commission approve updated pricing so the projects can move forward. According to the Company's November 28, 2022, Reply Comments, total capital costs are expected to increase by approximately $89 million.[2,3] The Commission is being asked to decide whether these incremental costs for Border Winds and Pleasant Valley are in the public interest.

I. The Inflation Reduction Act lowers the net impact of the cost increases.

While the projects are seeing higher-than-expected capital costs, the Inflation Reduction Act (IRA) will, according to Xcel, "more than offset these cost increases and result in significant additional customer savings compared to the initial filing."[4] Xcel estimates that the IRA will reduce its revenue requirement by approximately $200 million on a present value basis for Border Winds and Pleasant Valley, compared to what the Commission previously approved.[5,6] On a Levelized Cost of Energy (LCOE) basis, the impact of the IRA will make the two repowered projects among the lowest-cost resources on the Company's system.[7]

A reason why the offset is so great is because Xcel's initial filing included PTCs for both projects at an expected 60 percent qualification level; with the IRA, Xcel expects the projects will qualify for the full credit. To maximize these benefits, however, Xcel will need to delay construction and COD until 2025. Xcel explained:

> The 10 years of PTC eligibility for the existing facilities expires in November 2025 for Pleasant Valley and December 2025 for Border Winds. The Company's initial planned repower COD of December 2024 would result in foregoing the final year

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[2] Xcel reply comments, p. 2.

[3] Attachment J contains a breakdown of the $89 million in capital cost increases.

[4] Xcel Petition, p. 2.

[5] Xcel reply comments, p. 3.

[6] The total benefits of the repower portfolio will increase further as the IRA will also reduce the revenue requirement for Nobles and Grand Meadow.

[7] The LCOE for each project is provided on page 2 of the Non-Public version of the Petition.

> of PTCs currently in place for both projects. Delaying construction and COD to 2025 would allow the Company to preserve a significant portion of the final year's PTCs, with some PTCs forfeited during the construction period as wind turbines are taken offline to be repowered.[8]

Attachments M and N to Xcel's Reply Comments contain the supporting revenue requirements models for Pleasant Valley and Border Winds repowers, respectively, and are provided in a live Excel spreadsheet format; these spreadsheets show the annualized PTC benefit for each project. Attachment L is a summary of PVRR benefits due to the IRA.

In Reply Comments, Xcel floated the possibility of delaying construction and COD even further, into 2026, to allow the Company to preserve 100 percent of the final year's PTCs; however, Xcel needs further guidance from the Internal Revenue Service (IRS) about this option.

II. Contributors to Cost Increases

A. Inflation and Technical Challenges

Since 2020, inflation has impacted the cost for raw materials for wind turbine manufacturing, such as steel, resin, and copper. Xcel and Vestas determined that the only viable path forward for repowering Border Winds and Pleasant Valley would be to replace the nacelle of all 175 turbines entirely, rather than retrofitting them. Of the $89 million capital costs reflected in the updated pricing, inflation and technical challenges is the largest contributor.

B. Road Use Requirements

The second largest category is road use issues. Some local landowners opposed cranes and other project components being transported across their property.[9] This means Xcel will need to use more roads, which requires more equipment and labor than expected, and Xcel is responsible for the cost of maintaining and fixing certain roads.

C. Blade and Hub Disposal

Since the Commission's January 22, 2021, Order, Xcel changed the waste classification of turbine blades to Category 3, which means the Company must have a contract with the vendor that will manage them at the end of their life. When Border Winds and Pleasant Valley were

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[8] Xcel reply comments, p. 5.

[9] The Petition states: "Typically, when the Company is utilizing farmers' fields, crane mats are placed on the ground, so the tracks of the cranes do not sink into the soil. These mats also allow the cranes to be transported completely intact from site to site without destroying farmland. Since the Company will not be able to use this approach for these Projects, the cranes must be partially disassembled every time they need to be moved to the next turbine, and then reassembled once they have arrived. This adds additional cost to the process in terms of equipment and labor, as a crew will likely need to be placed on the night-shift to prepare the cranes to be moved."

approved in 2013,[10] decommissioned turbine blades and hubs were considered construction and demolitions (C&D) waste. Xcel stated, "traditional disposal methods are not adequate for this material, consequently preprocessing of the blades is required before the blades can be disposed of."[11]

D. Builders Risk Insurance

When Xcel presented the original estimate for the Projects, the Company used insurance rates from 2018. However, Xcel stated that "[d]ue to open claims the Company has had with insurers since 2019, as well as rising premiums, the cost of builder's risk insurance has increased."[12]

E. Delaying Construction

The projects initially qualified for a PTC level of 60 percent (the 2020 rate of $15.00/MWh adjusted for inflation thereafter). However, the IRA provides the ability to receive the full credit (2022 rate of $27.50/MWh adjusted for inflation thereafter), which means available PTC benefits will be significantly higher than the initial filing contemplated. While delaying construction creates additional costs, maximizing PTC benefits provides a net benefit.

F. North Dakota Sales Tax

In its initial filing, Xcel unintentionally omitted a North Dakota sales tax estimate, which Xcel assumes will be 5.5 percent.

III. Additional Information on the IRA

As noted above, Xcel estimates that the IRA could result in approximately $212 million in customer savings, which will more than offset the $89 million capital cost increase. However, one source of uncertainty is whether Xcel can transfer/sell tax credits to third-parties, which will require the development of a new market. Second, the IRA includes bonus PTCs for domestic content and siting resources in an energy community. Xcel is awaiting U.S. Department of Treasury/IRS guidance, and the Company is working with suppliers to determine the projects' domestic content. Xcel noted that while it is also awaiting guidance on energy community qualification requirements, Border Winds and Pleasant Valley do not appear to be in energy communities.[13]

DEPARTMENT INITIAL AND XCEL REPLY COMMENTS

[10] December 13, 2013, *Order Approving Acquisitions with Conditions*, Docket No. E002/M-13-603, Docket No. E002/M-13-716.

[11] Petition, p. 6.

[12] Ibid.

[13] Xcel reply comments, p. 4.

I. Department Analysis

The Department's November 14, 2022, Initial Comments largely discuss the following topics:

- the Commission's January 22, 2021, Order in this proceeding, which approved the Wind Repower Portfolio and established several ratepayer protections, and the Commission's October 4, 2022, Order in Docket No. 21-794, which approved RES Rider cost recovery eligibility for the Border Winds and Pleasant Valley repowering projects;
- PTC benefits pre- and post-IRA; and
- supplemental information needed before making a final recommendation.

A. Commission Orders

The Commission's January 21, 2021, Order approving the repowering projects with conditions established the following requirements and ratepayer protections:

- Xcel may recover the costs of each self-build repowering project, including the existing rate base on each existing facility. Any recovery through the RES Rider will require a separate Commission determination that the projects are eligible.
- For all projects approved in this order, any future cost recovery is limited to the Minnesota jurisdictional allocators approved by the Commission.
- The following ratepayer protections apply to the projects approved in this docket:
    - Xcel must justify any costs (including operations-and-management expense, ongoing capital expense— including revenue requirements related to capital included in rate base— insurance expense, land-lease expense, and property/production tax expense) that are higher than forecasted in this proceeding, for either the Ewington PPA or the self-build portfolio. Xcel bears the burden of proof in any future regulatory proceeding related to the recovery of costs above those forecasted in this proceeding.
    - The Commission will otherwise hold the Company accountable for the price and terms used to evaluate the projects.
    - Ratepayers will not be put at risk for any assumed benefits that do not materialize.
    - Xcel customers must be protected from risks associated with the non-deliverability of accredited capacity and/or energy from the Project. The Commission may adjust Xcel's recovery of costs associated with this Project in the future if actual production varies significantly from assumed production over an extended period.
    - Xcel must include in its Fuel Clause Adjustment true-up filings the amount of any curtailment payments for the projects, along with explanations for the curtailments.
    - Xcel must clearly account for all costs incurred for the projects.
    - Xcel must file a compliance filing by June 30, 2021, that provides an update on the status of the projects.
    - Until the projects are in service, Xcel must report quarterly on project failures along with the options available to the Commission to remedy any failures that

occur.

- For future repowering petitions that include more than one project, Xcel shall evaluate the proposed wind projects both on an individual basis and as a total portfolio.

The Commission's October 4, 2022, Order in Docket No. 21-794 approved RES Rider cost recovery eligibility for the Border Winds and Pleasant Valley repowering projects (as well as for the Grand Meadows, Nobles, and Northern Wind repowers) in the RES Rider tracker.

B. PTC Benefits

On August 16, 2022, the IRA was signed into law, which amended 26 U.S. Code § 45 (section 45) and added 26 U.S. Code § 45Y (section 45Y). Table 1 below from the Department's November 14, 2022, Initial Comments summarizes its then-current understanding of the projects' PTC eligibility under the IRA. Note that new section 45 PTCs only apply to facilities placed in service in 2022 or later. To receive new section 45 PTCs, facilities must begin construction before January 1, 2025. Section 45Y applies to facilities placed into service in 2025 or later. Xcel stated in Reply Comments, "[b]oth projects would receive PTCs under Sec 45 at the full PTC rate, which is currently 2.75 cents per kilowatt hour."[14]

Table 1: PTCs under Sections 45 and 45Y (current understanding)

	Old 45	New 45	45Y
Placed into service	2021 and earlier	2022 and later	2025 and later
Beginning construction (for PTC purposes, with safe harbor requirements)	2016 to 2021	2024 and earlier	n/a
2022 Credit per MWh	$15.60 (equal to $26*60%) if beginning construction in 2020 or 2021	$5.20 minimum; $26 if meet Prevailing Wage + Apprenticeship req; 10% bonus for Domestic Content, 10% bonus for Energy Community --> $31.20 maximum	same as New 45

As the table illustrates, since the passage of the IRA, the base rate for updated Section 45 PTCs has increased to a $5.20/MWh minimum, increasing if certain conditions are met. The credit could increase further if domestic content and energy community bonuses can be achieved.

II. Request for Supplemental Information

The Department required additional information from the Company before making a recommendation. Staff created the table below to present the Department's request for supplemental information alongside Xcel's responses in Reply Comments:

[14] Xcel reply comments, p. 4.

Requested Information		Xcel Response
A.	Workpapers of forecasted and historical annual costs, benefits, and production levels for both project	Attachment A summarizes annual revenue requirements, PVRR, and LCOE for both projects as filed in the original September 29, 2020 petition compared to the October 14, 2022 petition.
B.	Tie the workpapers to all cost and benefit numbers cited in the October 14, 2022, petition.	• Attachment J contains a breakdown of the $89 million in capital cost increases with links to the supporting models. • Attachment K details the **[PROTECTED DATA]** in PVRR benefits from PTCs preserved on the original projects by deferring the repower CODs to 2025. • Attachment L is a summary of the **[PROTECTED DATA]** in PVRR benefits due to the IRA, and includes labels referencing the detailed supporting revenue requirement models (Attachments E, I, M, and N).
C.	Encompass modeling of the updated pricing, both on an individual basis and as a total portfolio, as required by the January 22, 2021 order.	The Department misinterpreted the Commission's January 22, 2021, Order. Since Xcel is not proposing new repowering projects, but providing an update to the costs of two previously-approved repowering projects, Xcel disagrees that the Commission Order was intended to require additional Encompass modeling in this circumstance.
D.	How transferring credits to third parties would affect revenue requirements offsets for PTCs relative to pre-IRA.	The cost associated with transferring credits to third parties will be netted against the PTC benefit that is passed on to customers. The Company modeled the cost at **[PROTECTED DATA]** of the PTC. More will be known about the cost to transact as the market for selling credits develops.
E.	How ratepayers would benefit from any new types of transfers of credits to third parties.	The transfer of credits to third parties will replace the need to carry unused credits in rate base due to the Company's current inability to utilize credits to offset taxable income.
F.	Under what section (45 or 45Y) the new projects would receive PTCs, what PTC levels are expected, and the uncertainty regarding the level of PTCs.	Both projects would receive PTCs under Section 45 at the full PTC rate, with potential bonus PTCs for domestic content and location in an energy community.

Requested Information		Xcel Response
G.	To what extent the value of PTCs underlying benefit estimates depends on the prevailing wage and apprenticeship provisions or bonus credit provisions related to energy communities or domestic content	Both projects began construction in 2021, before the passage of the IRA. Under the IRS continuous construction safe harbor, if the Projects are placed in service by the end of 2025, they are not subject to the prevailing wage and apprenticeship provisions. Xcel is awaiting further guidance from the IRS regarding energy community qualification requirements; however, it appears that neither of these projects are in energy communities. Xcel is awaiting guidance from the IRS and are working with its suppliers to determine domestic content.
H.	(1) Explain and quantify the uncertainty in PTC estimates related to the inflation adjustment factor and (2) in the inflation adjustment factor and resulting PTC value for credits in 2022	There is no longer uncertainty as to the inflation adjustment factor methodology applicable to these projects. The IRS issued Announcement 2022-23 on November 10, 2022, in which it affirmed the applicability of the new inflation adjustment rounding mechanism to projects that are placed in service after 2021.
I.	How delaying construction to 2025 or 2026 generates additional PTCs.	Delaying construction and COD to 2025 would allow the Company to preserve a significant portion of the final year's PTCs, with some PTCs forfeited during the construction period as wind turbines are taken offline to be repowered. Delaying further into 2026 would allow the Company to preserve 100 percent of the final year's PTCs. However, the Company needs further IRS guidance to determine if a delay into 2026 would qualify the projects for the full PTC under the IRA.
J.	Why the projects need to be placed in service by the end of 2025 to satisfy certain PTC requirements and whether these are the safe harbor requirements.	Once a project begins construction, it also must continue construction activities. If a project is placed in service within a certain number of years (usually four years), the IRS presumes that continuous construction has occurred. This is the continuous construction safe harbor. For projects that began construction in 2021, the continuous construction deadline is the end of 2025.
K.	When the repowering is expected to occur, how long it will take, and the expected production cuts during construction.	The Site Permit Amendment for each project was verbally approved by the respective commissions in Minnesota and North Dakota on October 27, 2022. Both projects are currently scheduled to begin repowering in Q2 2025.
L.	Update on the current production of the facilities and any current construction or repowering activities.	Currently, there are no repowering construction activities at either site.

Requested Information		Xcel Response
M.	Explain the open builder's insurance claims and why builder's insurance has increased by over 20 times from Xcel's original assumption.	Over the past four to five years, property insurance markets have experienced numerous claims, which have impacted the premiums for current and future projects. The estimated premium Xcel reported in Xcel's October 14, 2022, filing in this docket was based on past insurance placements.
N.	Any forecasted Border Winds and Pleasant Valley revenue requirements in its recovery request in Docket No. E002/GR-21-630 and explain how this updated petition affects that docket.	Xcel is not seeking to recover any costs associated with the repowering of Border Winds or Pleasant Valley in its pending electric rate case in Docket No. E002/GR-21-630.
O.	Explain the annual difference in expected PTCs and an explanation of whether the new credits include any changes for the sale or transfer to third parties.	The initial filing included PTCs for both projects at 60 percent qualification (2020 rate of $15.00/MWh adjusted for inflation thereafter), and costs for carrying unused PTCs in the rate base. With the passage of the IRA, Xcel assumes the projects will qualify for the full credit (2022 rate of $27.50/MWh adjusted for inflation thereafter). Additionally, Xcel assumed a benefit of avoiding the cost to carry PTCs by transferring the credits, net of an estimated percentage of the cost to transfer credits.
P.	Risks (inflation, supply chain, workforce, and land issues, etc.) with delaying construction from 2024 to 2025.	These risks are not sufficiently material to warrant starting the repowering before 2025, as they are difficult to quantify, and they do not outweigh the benefits of prolonging the PTCs.
Q.	Cost changes as a result of contractor changes, including any changes to any costs paid to Vestas.	Xcel signed a safe harbor agreement with Vestas in 2021. The Turbine Supply Agreement for the remainder of the wind turbine components has not yet been executed. We anticipate that execution of the Turbine Supply Agreement will occur after approval of this petition.
R.	Effects on transmission issues	Xcel does not foresee any adverse effects due to impacts on the transmission system, as wind repowerings have a very low probability of requiring mitigation.

DEPARTMENT RESPONSE COMMENTS

Using Xcel's assumptions for the PTC levels, the Border Winds and Pleasant Valley repowering projects are cheaper on a levelized basis than the prices Xcel originally proposed for those projects in the Company's initial, September 29, 2020, filing. Therefore, the Department concluded that the updated projects are also in the public interest with the benefits assumed in

Xcel's updated petition. However, the ratepayer benefit is highly dependent on PTC assumptions. Moreover, the Commission's January 22, 2021, Order in this docket stated that ratepayers will not be put at risk for any assumed benefits that do not materialize. This same language has been used in similar wind acquisitions.

Since ratepayers assume the PTC risk on the front end, the Department argues they must be compensated for this risk on the back end. And since the benefits to ratepayers depend largely on benefits presented by the IRA,[15] the Department believes that "additional specific mechanisms are needed . . . given uncertainty surrounding PTC qualification and transfers."[16]

The Department recommended that the Commission approve Xcel's updated pricing, on the condition that Xcel conduct an analysis of actual PTC levels for all owned wind projects, relative to the levels assumed when modeling at the time of requesting approval. If PTC levels (in dollars) are less than what was assumed, Xcel must refund ratepayers the difference. The refund will ensure "ratepayers will not be on the hook for any overly optimistic assumptions Xcel uses to justify resource acquisitions."[17] The Department recommends the following ratepayer protections:

- In the PTC true-up section of Xcel's annual RES rider filings (or successor filings), Xcel must, starting in next year's filing, provide an analysis of actual PTC levels for all owned wind projects (whether recovered in the RES rider, base rates, or elsewhere) relative to the levels Xcel assumed when modeling the projects at time of approval.

- If PTC levels (in dollars) are less than what was assumed, Xcel must refund ratepayers the difference.

XCEL REPLY TO DEPARTMENT RESPONSE

On February 17, 2023, Xcel filed a reply to the Department's recommendations related to PTC benefits. Xcel described the current PTC analysis that is filed in a RES Rider docket:

> [T]he Company already provides actual wind production and PTC value by wind resource as an attachment to our RES Rider filings. For example, Attachment 10 of our Petition in Docket No. E002/M-22-528 provides actual wind production for 2021, and the first six months of 2022, the PTC value, the PTC revenue requirement impact, and the difference from the amount included in base rates to calculate the total PTC true-up. Attachment 10 includes detail for resources recovered through the RES Rider, as well as resources that are recovered through base rates.

Regarding refunds, Xcel argued there were a number of variables outside the Company's

[15] Department Response Comments, p. 2.

[16] Ibid.

[17] Ibid.

control that could impact the difference between actual and assumed PTC benefits and that the January 22, 2021, Order already offers extensive ratepayer protections.

STAFF DISCUSSION

Ordering paragraphs 6.a. and 6.c. of the Commission's January 22, 2021, Order in this proceeding established two key ratepayer protections relevant to Xcel's instant request. Among other things, the Commission decided that:

- 6. a. Xcel must justify any costs that are higher than forecasted in this proceeding, and Xcel bears the burden of proof in any future regulatory proceeding related to the recovery of costs above those forecasted in this proceeding.

- 6.c. Ratepayers will not be put at risk for any assumed benefits that do not materialize.

The Supplemental Petition and Reply Comments reflect the Company's compliance with Order Point 6.a., so the Commission will need to determine whether Xcel sufficiently justified the cost increases (the main contributors are discussed on pages 3 and 4 of these briefing papers). Second, the Commission will need to address the Department's recommendation (which the Company opposes) that customers should be refunded if PTC benefits do not materialize as the Company assumed in its October 14, 2022, Supplemental Petition.

I. Discussion of Decision Options

A. Xcel Requests (Decision Options 1-2)

The Supplemental Petition contains two requests – (1) approval of the updated pricing and (2) authorization to pursue cost recovery in a future RES Rider filing – worded as follows:

- Approve the updated pricing for the Projects discussed in this Petition, as reasonable and in the public interest; and

- Continue to allow Xcel Energy to pursue cost recovery for the Company's Wind Repowering Portfolio, including the Border Winds and Pleasant Valley Projects, in a future Renewable Energy Standard (RES) Rider filing.

Staff believes the term "updated pricing" is too vague and needs to be more specific. As staff understands it, Xcel's request means approving the $89 million of incremental capital costs described in the Supplemental Petition; if so, the decision option should state it.

Note that Xcel opposed the Department's recommendation for a PTC refund in part because the LCOE will vary from year-to-year given variability in wind output; it should be clear that "updated pricing" does not mean LCOE, but increased capital costs **above** what the Company estimated in its initial September 29, 2020, petition. Revised Decision Option 1 states:

- Revised Decision Option 1: Approve Xcel Energy's estimated $89 million in incremental capital costs, as stated on page 2 of the Company's November 28, 2022, Reply Comments, above the Company's estimate in its initial September 29, 2020, petition, as reasonable and in the public interest.

There is no opposition to the second decision option, related to allowing the Company to continue to pursue cost recovery through a RES Rider filing.

B. Department Recommendations (Decision Options 3-4)

Staff understands the Department's recommendation, as stated in its February 1, 2023, Response Comments, as having three distinct components: (1) approval of the updated pricing on the condition that (2) Xcel shall conduct an analysis of PTC levels in future RES Rider filings, and (3) refund customers if PTC levels (in dollars) are less than what was assumed.

The Department conditionally supports approving the Supplemental Petition (Decision Option 1), so the two remaining Department recommendations are Decision Options 3 and 4 below. As discussed previously, Xcel filed a response on February 17, 2023, opposing Decision Option 4 (although Xcel's position on Decision Option 3 is less clear), arguing that the Department's mechanism "would unnecessarily disincentivize utility investment in renewable resources."[18]

- Decision Option 3: In the PTC true-up section of Xcel's annual RES rider filings (or successor filings), Xcel must, starting in next year's filing, provide an analysis of actual PTC levels for all owned wind projects (whether recovered in the RES rider, base rates, or elsewhere) relative to the levels Xcel assumed when modeling the projects at time of approval. *(Department)*

- Decision Option 4: If PTC levels (in dollars) are less than what was assumed, Xcel must refund ratepayers the difference. *(Department)*

Staff notes that the RES Rider already includes PTC true-ups that compare the amount included in base rates to actual amounts. The true-up then flows to customer bills as a "Resource Adjustment." A true-up is a recovery adjustment and can serve as a customer protection. A true-up can be a positive or negative adjustment, and the Department proposed to pass only the positive adjustments (refunds) to ratepayers. Staff agrees with the Department recommendation for updated reporting in the RES Rider filing, comparing estimated PTCs to the actual amounts related to this resource acquisition filing and the associated refund. Xcel is seeking recovery through the RES Rider, so adjusting the offsetting PTCs in the same filing is appropriate.

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[18] Xcel Response to the Response Comments, p. 3.

DECISION OPTIONS

1. Approve Xcel Energy's estimated $89 million in incremental capital costs, as stated on page 2 of the Company's November 28, 2022, Reply Comments, above the Company's estimate in its initial September 29, 2020, petition, as reasonable and in the public interest. *(Staff modification of Xcel request)*

2. Continue to allow the Company to pursue cost recovery for its Wind Repowering Portfolio, including the Border Winds and Pleasant Valley Projects, in a future Renewable Energy Standard (RES) Rider filing. *(Xcel)*

3. In the PTC true-up section of Xcel's annual RES rider filings (or successor filings), starting in next year's filing, require Xcel to provide an analysis of actual PTC levels for all owned wind projects (whether recovered in the RES rider, base rates, or elsewhere) relative to the levels Xcel assumed when modeling the projects at time of approval. *(Department)*

4. If actual PTC levels (in dollars) for a project are less than what was assumed in the September 29, 2020, petition requesting approval of the projects, require Xcel to refund ratepayers the difference. *(Department)*