

STATEMENT OF THE ISSUES

Should the Commission approve the proposed Panamint – Cottage Grove BESS PPA?

Should the Commission authorize the Company to recover from Minnesota retail customers the Minnesota jurisdictional portion of the energy costs incurred under the PPA through the Fuel Clause Rider and capacity payments through base rates and the capacity tracker?

SUMMARY

On December 5, 2025, Xcel Energy (Xcel or the Company) filed a petition requesting approval of a Purchased Power Agreement (PPA) with Panamint for the 80 MW / 320 MWh Cottage Grove Battery Energy Storage System (BESS) project (Petition). The Cottage Grove BESS is specifically introduced as a replacement project for National Grid Renewables' (NGR) Plum Creek Wind + Storage project (230 MW Wind + 150 MW / 600 MWh BESS), which was selected, but later withdrawn, as part of Xcel's Settlement Agreement in the Integrated Resource Plan (IRP)¹ and Firm Dispatchable² dockets.

The project will be co-located at the existing Cottage Grove Cogeneration plant,³ and Xcel is targeting a June 1, 2028 commercial operational date (COD). Table 1 below provides an overview of the project.

Table 1. Cottage Grove BESS Project Overview

| Category | Details |
|-----------------|--|
| Developer | Panamint |
| Project Type | BESS |
| Capacity | 80 MW / 320 MWh |
| Location | Co-located at the existing Cottage Grove Cogeneration facility in Cottage Grove, Minnesota |
| Interconnection | Chemolite 115 kV Substation |
| COD | June 1, 2028 |
| Contract Term | 15 years |

According to the Company, the Cottage Grove BESS will provide firm dispatchable capacity and grid stability, and the PPA is structured to include ratepayer protections such as fixed capacity payments and performance-based adjustments.

¹ Docket No. 24-67.

² Docket No. 23-212.

³ The Cottage Grove Cogen facility is a 265 MW combined-cycle gas plant in Cottage Grove, Minnesota.

Xcel's EnCompass modeling showed a cost increase of \$5 million on a Present Value Societal Costs (PVSC) basis and \$300 million on a Present Value Revenue Requirement (PVRR) basis. Xcel believes this cost increase is reasonable because the BESS: 1) helps meet Xcel's significant resource need, 2) facilitates the addition of more renewable resources, and 3) mitigates the risk of needing to acquire higher-priced resources in the future.

The Petition includes two requests: 1) approval of the PPA and 2) cost recovery of the Minnesota jurisdictional portion of energy costs through the FCR and capacity payments through base rates and the capacity tracker.

The Department of Commerce (Department) and the Office of the Attorney General—Residential Utilities Division (OAG) filed comments. The Department recommends that the Commission approve the Cottage Grove BESS PPA, concluding that the pricing is reasonable and ratepayer protections are adequate. Although the pricing is higher than the storage component of the original Plum Creek bid, the Department found it to be reasonable in light of current market challenges and when compared to the North Star BESS project that was also part of the Settlement Agreement.

The OAG raised concerns regarding the project's scope, noting a significant disparity between the size of the Cottage Grove BESS (80 MW) and the Plum Creek facility (230 MW Wind + 150 MW / 600 MWh BESS) it is intended to replace. In addition, Xcel indicated that, as a result of the imputed debt associated with the project, the Company would seek an increase to its equity ratio in its next electric rate case; the OAG recommended the Commission avoid taking any action on issues related to capital structure in this proceeding. The third topic was redacted from the OAG's comments, and the OAG criticized Xcel's excessive use of "Not Public" designations for contract terms, arguing that excessive redactions hinder the Commission's ability to deliberate openly.

PETITION

I. PPA Terms

A. Xcel

The Commission's April 21, 2025, *Order Approving the Settlement Agreement with Modifications* (IRP/Firm Dispatchable Order) established four criteria for evaluating the Firm Dispatchable PPAs. Specifically, Order Point 19 stated:

19. The evaluation of these non-utility bidders' projects PPAs as contemplated in the settlement agreement will include, but not be limited to, whether:
 - a. the prices and terms put ratepayers at risk for costs that are higher than bid or for benefits assumed in bids that do not materialize;
 - b. the agreements had terms which sufficiently protected ratepayers from risks associated with the non-deliverability of accredited capacity

- and/or energy from the project(s) as proposed;
- c. the terms of any agreements that inappropriately shifted risk or unknown costs to ratepayers; and
- d. the reasonableness of delay and cancellation provisions.

This section will discuss how the PPA meets each of the Commission's evaluation criteria.

1. Costs and Benefits

Xcel argued that that ratepayers are protected from potential cost escalations and unrealized benefits through strict pricing and performance structures, including:

- fixed or formula-based pricing, ensuring customers only pay for the capacity and energy actually delivered; and
- payment adjustments if the project fails to meet performance metrics.

Additionally, while the EnCompass analysis showed a slight cost increase relative to the baseline (\$5 million PVSC/\$300 million PVRR), Xcel argued these costs are reasonable to mitigate the risk of acquiring even higher-priced resources in the future.

2. Non-deliverability of Accredited Capacity and/or Energy

Xcel identified terms that protect ratepayers if the project fails to deliver its accredited capacity or energy:

- If the project fails to achieve the agreed-upon COD, the Seller owes liquidated damages. Xcel retains the right to terminate the agreement after defined cure periods.
- Xcel can terminate the agreement and recover damages if operational performance falls below contractual thresholds. Examples of such provisions include:
 - Capacity Availability Factor (CAF), which reflects the actual available capacity of the BESS;
 - Round Trip Efficiency (RTE), which is the ratio of energy discharged compared to energy charged, reflecting the efficiency of the project's charging capabilities; and
 - Dispatch penalties, which incentivizes accurate and timely responses to a dispatch notice.
- In the event of a Seller default, Xcel has the right to purchase the facility at fair market value.

3. Allocation of Risks

Xcel stated that the PPA is structured to allocate risks fairly. For example:

- Key risks – such as construction delays, underperformance, and certain changes in law – are borne by the seller, with explicit caps on the Company’s exposure.
- The Company’s payment obligations are limited to delivered capacity, with reductions for underperformance.

4. Delay and Cancellation Provisions

Xcel identified delay and cancellation provisions that are consistent with industry standards and designed to incentivize timely delivery:

- The Seller owes liquidated damages for failing to meet “critical path milestones” or the COD.
- Xcel may terminate the agreement after cure periods for delays or in the event of “extended force majeure,” which includes clear procedures for the return of security.
- Xcel may recover damages up to a defined cap in the event of Seller default.

B. Department Comments on PPA Risks

The Department reviewed the PPA using the Commission’s four criteria in Order Point 19, and the Department’s conclusions on Order Points 19.a-d. are summarized below.

Order Point 19.a. Cost and Benefits: The Department compared the Cottage Grove BESS pricing to the original Plum Creek bid and the North Star BESS PPA. While the Cottage Grove pricing is higher than the storage component of the Plum Creek bid, the Department noted the projects are not directly comparable, as Plum Creek involved new wind and storage construction. When compared to the North Star BESS, the Cottage Grove pricing was found to be reasonable, particularly given emerging market challenges that influenced PPA negotiations.

Order Point 19.b. Deliverability Protections: The PPA includes terms to protect ratepayers from paying for capacity that is not delivered, such as the CAF and RTE adjustments. These ensure that the Seller is financially motivated to maintain the battery’s availability and efficiency over time.

Order Point 19.c. Risk Shifting: The PPA does not inappropriately shift risk to ratepayers. Xcel retains ownership of environmental attributes, and the Seller is responsible for penalties if they fail to respond to dispatch notices.

Order Point 19.d. Timeliness: The PPA sets critical path development milestones and a target COD of June 1, 2028. Failure to meet these deadlines allows Xcel to collect liquidated damages or terminate the agreement.

C. OAG

The OAG highlighted the significant disparity in capacity between the 80 MW Cottage Grove BESS and Plum Creek, a hybrid facility comprising 230 MW of wind paired with a 150 MW BESS. According to the OAG, without knowing if the Cottage Grove BESS is the sole replacement for Plum Creek, it is difficult to determine if the project is reasonable or how it impacts ratepayers. Therefore, the OAG requested clarification from Xcel about the scope of the Cottage Grove BESS PPA as a replacement for the larger Plum Creek project.

The OAG also requested a clarification regarding the applicability of two other BESS projects in this docket. The OAG noted that Xcel designated the entirety of the Cottage Grove BESS PPA as “Not Public,” and the Petition contained only minimal descriptions of contract terms. As a result, the OAG was forced to redact its entire discussion of this issue, and the OAG requested Xcel limit its “Not Public” designations in reply comments. The OAG noted that excessive “Not Public” designations make it difficult for the Commission to deliberate in an open proceeding.

1. Xcel Response

In response to the OAG’s request for clarification on whether the Cottage Grove BESS PPA is intended to be the sole replacement for Plum Creek, Xcel stated:

To clarify, the Company has issued a Request for Proposals (RFP) targeting 3.5 GW of renewables and storage. Resources selected through this RFP will be used to replace the remaining capacity and energy lost from the Plum Creek project. The Cottage Grove BESS is one component of this broader replacement strategy, not the sole replacement.⁴

Xcel’s response to the OAG’s request for clarification regarding the applicability of the two other BESS projects in this docket was designated as Not-Public.

II. Lease Arrangement

A. Xcel

Because certain agreements such as the Cottage Grove BESS PPA have dispatch rights and capacity-based payments, they have the potential to create unintended long-term financial implications. Specifically, these agreements can be treated as operating or finance leases, and when assessing the Company’s financial risk, credit rating agencies may treat a portion of the future payments as imputed debt. According to Xcel, this can lead to lower credit ratings, which in turn increase the Company’s borrowing costs on new debt.

The table below shows the estimated imputed debt and credit ratio impacts from the Cottage Grove BESS PPA by 2028.

⁴ Xcel reply comments, p. 3

Table 2. Estimated Credit Metric Impact

| Project | Lease Type | 2028 Imputed Debt (\$ million) | 2028 Impact to FFO / Debt |
|--------------------|------------|-----------------------------------|------------------------------|
| Cottage Grove BESS | Operating | \$105 | Approx. -0.20% |

B. OAG Comments on Imputed Debt

The OAG argued that this docket is not the appropriate forum to explore changes to Xcel's capital structure, and the Commission should avoid taking any action that could be interpreted as pre-authorizing an increased equity ratio in this case.

Xcel agreed with the OAG that no Commission action regarding imputed debt is needed at this time, but the Company expects to pursue an increase to its equity ratio in its next rate case.

III. Economic Analysis

A. Xcel

Xcel used EnCompass to determine the total benefits or cost of the Cottage Grove BESS relative to a baseline capacity expansion plan.

The baseline scenario incorporated the 2024 RFP Portfolio⁵ and the latest Fall 2025 ("2025v2") load forecast. Xcel also assumed Production Tax Credits (PTCs) would be available for generic resources through 2030 but not beyond.

Under the Cottage Grove BESS scenario, the project was forced into the model, and market purchases for capacity and energy were disabled. This ensured the model generated a capacity expansion plan that relied on the Cottage Grove BESS rather than the market and could produce PVSC and PVRR results for comparison against the baseline.

The addition of the Cottage Grove BESS results in an increase of \$5 million on a PVSC basis and \$300 million on a PVRR basis over the 2024-2050 timeframe. Xcel believes this cost increase is reasonable because the capacity provided by the BESS: 1) offsets capacity that would otherwise need to be acquired, 2) facilitates the addition of more renewable resources, and 3) mitigates the risk of needing to acquire higher-priced resources in the future.

B. Department

The Department reviewed Xcel's EnCompass modeling and concluded (in agreement with Xcel) that the PVSC impact of the Cottage Grove BESS was minimal and reasonable. The Department also noted that "because the PVSC increase is lower than the PVRR increase . . . the project

⁵ In Docket No. 24-230, Xcel proposed its 2024 RFP Portfolio consisting of seven solar projects totaling 768 MW of solar capacity and five standalone BESS projects totaling 855.5 MW / 3,422 MWh of BESS capacity.

decreases Xcel's total modeled CO₂ emissions."⁶

IV. Cost Recovery

A. *Xcel*

Xcel's justification for cost recovery through the FCR is excerpted below:

Pursuant to Minn. Stat. § 216B.16 subd. 7(3), the costs for "fuel used in generation of electricity" are eligible for automatic adjustment under the Fuel Clause Rider. Under the terms of our currently effective Fuel Clause Rider in our tariff, "[t]he energy cost of purchases from a qualifying facility" are "qualifying costs" that comprise the Cost of Energy. Because the project satisfies the conditions of a qualifying facility, the Company plans to recover the costs of this agreement through our Fuel Clause Rider.⁷

B. *Department*

The Department noted that while energy costs are typically recovered via the FCR, capacity payments are generally included in base rates. It was unclear to the Department whether Xcel intends to recover the fixed monthly capacity payments through the FCR. The Department requested that Xcel clarify whether it seeks to recover capacity payments through the FCR, and if so, justify why these costs are eligible for such recovery.

Xcel's response to the Department regarding FCR recovery is provided below:

- **Energy Costs:** Consistent with Minn. Stat. § 216B.16, energy costs incurred under the PPA – including the cost of energy purchased to charge the BESS, less any revenue from energy discharged and sold – are eligible for recovery through the FCR.
- **Capacity Costs:** Capacity payments under the PPA are not recovered through the FCR. Instead, these costs are included in base rates and tracked via the capacity tracker as proposed in our current rate case in Docket No. E002/GR-24-320, which allows for a true-up between base rate recovery and actual incurred costs.
- **Excess Throughput Payments:** If the Company incurs excess throughput charges under the PPA (for energy discharged above the annual throughput limit), these costs may also be eligible for FCR recovery, as they are directly related to energy usage.

⁶ Department comments, p. 4.

⁷ Petition, p. 9.

In summary, only energy-related costs – such as those for charging the BESS and any excess throughput payments – are proposed for recovery through the FCR. Capacity payments will be addressed through base rates and the capacity tracker, not the FCR.⁸

STAFF DISCUSSION

There are three decision options before the Commission. The Commission can (1) approve the PPA and (2) authorize Xcel's proposed cost recovery method, or (3) deny the Petition.

Staff notes that the OAG recommended the Commission avoid taking any action that could be interpreted as pre-authorizing an increased equity ratio in this case; however, Xcel agreed with the OAG and did not propose to increase its equity ratio in this proceeding, so the Commission does not need to make a decision to take no action.

Some justifications for approving the Petition include:

- **Replacing lost capacity:** The project will replace a portion of the capacity lost when the Plum Creek Wind + Storage project withdrew from the Settlement Agreement.
- **Grid stability:** The project will provide firm dispatchable capacity and energy, and its co-location at an existing cogeneration facility will provide stability to the grid.
- **Expiring tax credits:** The project is expected to qualify for tax credits that may not otherwise be available if Xcel needs to acquire an alternative to the Cottage Grove BESS.
- **Ratepayer protections in the PPA:** Xcel identified several provisions in the PPA that protect ratepayers from various risks, such as:
 - *Long-term price certainty:* The PPA provides fixed capacity payments for a 15-year term.
 - *Performance-based payments:* The PPA includes performance adjustment mechanisms, such as the CAF and RTE adjustments.
 - *Union labor:* The project will utilize union labor for construction.
 - *Resource attributes:* Xcel secures all accredited capacity and environmental attributes of the project.

While no party opposes approving the PPA, the Commission could determine that the benefits do not justify the cost impact. Staff agrees that the \$5 million cost impact in PVSC terms could be considered minimal; however, the \$300 million cost impact in PVRR terms could be considered quite significant.

⁸ Xcel reply comments, p. 2.

Finally, Staff appreciates the OAG voicing its concern over Xcel's arguably excessive use of Not Public designations, noting, for example:

Xcel has designated the PPA for the Cottage Grove BESS as Not Public in its entirety and minimal descriptions of the contract terms are included in Xcel's petition requesting approval of the PPA.⁹

Staff strongly agrees with the OAG that Xcel's Not Public designation of the entire Cottage Grove BESS PPA has the potential to significantly limit the Commission from meaningfully deliberating the contract it is being asked to approve. The Commission previously discussed this issue with Xcel at the January 21, 2026, Commission meeting regarding the Firm Dispatchable PPAs, but no specific action was taken by the Commission through its order. If the Company is unwilling to limit Not Public designations through verbal requests from the Commission and written requests from parties, the Commission may need to act through a written order.

[Decision Options on Next Page]

⁹ OAG comments, footnote 4, p. 2.

DECISION OPTIONS

1. Approve the proposed Panamint – Cottage Grove BESS agreement. (Xcel, Department)

And

2. Authorize Xcel to recover from Minnesota retail customers the Minnesota jurisdictional portion of the energy costs through the Fuel Clause Rider and capacity payments through base rates and the capacity tracker. (Xcel)

Or

3. Deny the Petition.