

Meeting Date April 9, 2026

Agenda Item 3**

Company Northern States Power co. d/b/a Xcel Energy

Docket No. E-002/M-25-400

In the Matter of Xcel Energy’s Petition for Approval of its 2026 Renewable Energy Standard Rider Revenue Requirements

Issues Should the Commission approve Xcel Energy’s Petition for approval of its 2026 Renewable Energy Standard Rider revenue requirements?

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✓ Relevant Documents

	Date
Xcel Energy – Initial Filing	October 27, 2025
Department of Commerce – Comments	December 26, 2025
Xcel Energy – Reply Comments	January 15, 2026
Department – Response Comments	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.

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I. Background

On October 27, 2025, Xcel Energy filed a petition for approval of its proposed 2026 Renewable Energy Standard (RES) Rider revenue requirements.

On December 26, 2025, the Department filed Comments, recommending approval subject to modifications.

On January 15, 2026, Xcel Energy filed Reply Comments in which it provided information regarding RES Rider recovery of costs exceeding the Sherco Solar 1 and 2 project cost cap, and requested approval.

On March 19, 2026, the Department filed Response Comments recommending approval with modifications.

II. Discussion

Minn. Stat. § 216B.16, Subd. 1 allows a utility to implement a rate change upon 60- days' notice to the Commission. Minn. Stat. § 216B.1645, Subd. 2a states that a utility may petition the Commission to approve a rate schedule that provides for the automatic adjustment of charges to recover prudently incurred investments, expenses, or costs associated with facilities constructed, owned, or operated by a utility to satisfy the requirements of Minn. Stat. § 216B.1691, provided those facilities were previously approved by the Commission pursuant to Minn. Stat. § 216B.2422 or Minn. Stat. § 216B.243.

Xcel Energy's proposed rate factor of 2.475 percent of base revenue for all customer classes is based on a total 2026 revenue requirement of \$67.1 million.¹ The proposed rate is an increase of 0.066 percent of base revenue compared to the current rate.

A. Xcel Energy – Petition

The Company stated that the projects for which recovery is requested in this RES Rider Petition have all been approved by the Commission in other dockets, and will bring significant benefits to their customers, including investment and production tax credits (ITCs and PTCs) which offset costs. The Company noted that it filed a multi-year rate plan (MYRP) with the Commission in November 2024. In that Rate Case, Xcel proposed to move the projects that will be placed in-service as of December 31, 2024, which are recovered through the RES Rider into base rates at the conclusion of the case.² Xcel asserted that there is no double-recovery for these projects between their interim rates and this rider request.

Xcel Energy requested approval of the following:

¹ Xcel's Petition; at 2.

² *Id.*

- RES Rider recovery of costs associated with projects previously approved for rider recovery: the repowering of the Border Winds, Grand Meadow, Nobles, Pleasant Valley, and Northern Wind projects; Sherco Solar 1 and 2 and Sherco Solar 3 projects; and Sherco Form Energy Long Duration Battery Storage Pilot (Sherco Form Battery);
- RES Rider recovery of costs associated with one new project, Sherco West BESS;
- Recovery over the established cost cap for the Sherco Solar 1 and 2 project;
- Total 2026 revenue requirements of \$67.1 million, which includes the tracker carryover balance and the PTC true-up net of PTC transaction costs;
- A RES Rider rate factor of 2.475 percent of base revenue to be implemented on January 1, 2026;
- Provisional implementation of the proposed RES Rider rate factor on January 1, 2026 if full Commission review and approval of the Petition is not possible by that date; and
- The proposed tariff revisions and customer notice.

1. Description and Purpose of Filing

Through subsequent Commission Orders, the RES Rider tracker incorporates proceeds from any sales of renewable energy credits (RECs) and a true-up to actuals of PTCs associated with Company-owned wind and solar facilities net of PTC transaction costs.

The RES Rider is beneficial for the Company and its customers, and for the State of Minnesota. The Rider provides a mechanism for the Company to recover costs for investments made in Eligible Energy Technologies, which support the State's renewable and carbon-free energy objectives, as set forth in Minn. Stat. § 216B.1691 and Minn. Stat. § 216H.02. Additionally, it allows the Company to pass through to its customers the value of PTCs and ITCs from those investments as benefits are created.

In this petition, Xcel requested RES Rider recovery of the costs related to five wind repowering projects, two solar projects, and two battery storage projects, including the new Sherco West Battery Energy Storage System (BESS) project. The Company has calculated the 2026 RES Rider revenue requirements to include costs and expenses associated with these projects, in addition to a true-up of actual PTCs net of transaction costs.

2. RES Rider Eligibility of New Projects

a. Sherco West BESS Project

The Company noted that the Sherco West BESS is a 300 MW, 4-hour BESS to be constructed by Xcel Energy at a site adjacent to the Company's Sherco Solar Energy Generating System in Clear Lake, Minnesota.³ The Sherco West BESS project is part of a larger battery storage project that is intended to help the Company meet the need for approximately 600 MW of additional energy storage system (ESS) capacity by 2030 and accommodate dispatchable resource needs.

³ Xcel's Petition; at 4.

The Project will tie-in to the switch yard being constructed as part of the Sherco Solar West Substation. During emergent storm or outage conditions, the BESS could be controlled for a 48-hour discharge at a reduced power rate of approximately 25 MW. In normal conditions, the project would operate based on market economics to provide energy sales and ancillary services. The Company anticipated submission of a site permit application to the Commission for the project in November 2025. The project is expected to be in service in 2027.

The Sherco West BESS project anticipates delivering cost-effective energy storage to Minnesota and the regional grid by providing energy, capacity, and ancillary services to the grid. By storing excess energy during periods of surplus and releasing it during peak demand, the project also helps offset the need for additional peak-generation capacity. Xcel noted that this project will be a Company-owned resource and utilized as part of the Company's overall energy supply operations.

Section (3) of Minn. Stat. § 216B.1645 allows recovery of other expenses incurred that are directly related to a renewable energy project, including expenses for energy storage, provided that the utility demonstrates to the Commission's satisfaction that the expenses improve project economics, ensure project implementation, advance research and understanding of how storage devices may improve renewable energy projects.

While the Sherco West BESS will be charged from the grid, it is designed to support the integration, reliability, and optimization of renewable energy resources across the Company's system. Battery storage systems such as the Sherco West BESS advance research and understanding of how storage devices may improve renewable energy projects, as intended by the statute. The Company pointed out the project allows for storage of excess electricity generated by other power producers during periods of low electricity demand, with the ability to send the electricity back to the grid when demand increases.

The impact to the grid from the integration of an ESS will advance research and understanding of how storage devices may improve renewable energy projects, including:⁴

- Supports integration of renewable energy: The integration of ESS enables higher and more efficient use of existing and new renewable energy sources.
- Frequency response and regulation: Strong ESS infrastructure provides moment-to-moment stability for the electrical system more efficiently than existing natural gas resources.
- Reduce energy waste: ESS stores energy when there is an excess supply and discharges that energy back onto the grid when supply is low.
- Grid Resiliency: ESS can support recovery from storms and other grid emergencies by more efficiently using the operating portions of the grid and providing the grid operator and utility additional flexibility while they work to

⁴ Xcel's Petition; at 6.

restore the system.

The project aligns with the statutory intent and Commission precedent for cost recovery under the RES Rider. Xcel therefore requested recovery of the Sherco West BESS project through the RES Rider.

1. Investment Tax Credit (ITC)

Xcel Energy stated that it anticipates receiving an ITC as part of the Sherco West BESS project. As approved by the Commission for the Sherco Form Battery project in their last RES Rider proceeding,⁵ the Company will establish a regulatory liability and flow back the ITC benefit to customers over the life of the Sherco West BESS asset. The technology for the Sherco West BESS differs from that of the Sherco Form Battery project. Hence, the asset life is 20 years rather than 10 years.⁶

3. Project Status and Cost Cap Comparison of Projects Currently Recovered Through the RES Rider

Table 1 shows the final commercial operation date (COD) for all in-service projects and the current estimated COD for the projects under construction.

Table 1: Commercial Operation Dates

Project Name	Final or Estimated COD	Status Notes
Border Winds Repower	December 2025	Under Construction
Grand Meadow Repower	March 2023	In-service
Nobles Repower	December 2022	In-service
Pleasant Valley Repower	December 2025	Under Construction
Northern Wind Repower & Rock Aetna	January 2023 and December 2022	In-service
Sherco Solar 1	October 2024	In-service
Sherco Solar 2	October 2025	In-service
Sherco Solar 3	August 2026	Under Construction
Sherco Form Battery	May 2027	Under Construction
Sherco West BESS	December 2027	Site Permit to be filed Nov. 2025

Ordering Paragraph 4 of the Commission's February 6, 2025 Order in Docket No. E-002/M-23-454 required the Company to detail cost caps by project and indicate where aggregate cost caps have been approved, including citations to the Orders and related filings establishing and revising the cost caps to support the stated caps in future RES Rider petitions.

⁵ See the Commission's May 27, 2025 Order in Docket No. E-002/M-24-353.

⁶ Xcel's Petition; at 7.

a. *Sherco Solar 1 and 2*

In the Commission's February 6, 2025 Order in Docket No. E-002/M- 23-454, the Sherco Solar 1 and 2 project cost cap is \$690.1 million, not including allowances for funds under construction (AFUDC).⁷ The project's costs are currently forecasted to exceed the cost cap by \$3.1 million.⁸ The Company stated that the primary reason for the overage is the emergent need to build a temporary bypass to avoid increased maintenance and operational costs and lost production due to icing on the Sherco Solar West Block high voltage transmission line (HVTL) until the retirement of the Sherco coal Unit 3 facility.

To temporarily resolve persistent and disruptive winter icing conditions on existing transmission facilities caused by steam from the existing coal units, the Company temporarily realigned the transmission line to the west of the Sherco coal plant's Unit 3 cooling towers. The estimated cost of the temporary bypass is approximately \$3.2 million.

The temporary bypass will ensure consistent performance and operation of the overall solar facility, which is an important resource on the overall NSP System. The additional expense will facilitate the solar plant in functioning at its optimum level. The additional \$3.2 million cost of the temporary bypass, which was not part of the original project scope, causes the Sherco Solar 1 and 2 project to exceed the established Sherco Solar 1 and 2 cost cap.

The Company requested approval of the RES Rider recovery over the cap to include costs related to the temporary bypass, which is a necessary part of the overall Sherco Solar 1 and 2 project to avoid lost production and increased maintenance and operational costs.

Xcel noted that it has not applied the Sherco Solar 1 and 2 cost cap when calculating the RES Rider revenue requirements in this Petition. The Company further stated that if the Commission does not approve their proposal to recover costs over the cap, they will apply the cap and adjust the rate in compliance. In that case, Xcel would expect to seek recovery of costs exceeding the cap in its next rate case.⁹

b. *Sherco Solar 3*

The Commission's October 25, 2023 Order in Docket No. E-002/M-22-403 established an aggregate, symmetrical capital cost cap for the Sherco Solar 3 project, with the capital cost set at the cost bid for the 250 MW version of the project.¹⁰ This cost cap is trade secret, therefore not entered in these briefing papers. Due to multiple unforeseen delays, Xcel stated that the in-service date for the Sherco Solar 3 project was estimated to be 10 to 11 months later than

⁷ Based on requirements set forth in the Commission's November 7, 2022 Order in Docket No. E-002/M-20-891, which depended on the results of the RFP in Docket No. E-002/M-22-403.

⁸ Xcel's Petition, Attachment 5b.

⁹ *Id.*; at 9.

¹⁰ Xcel Petition; at 9.

originally anticipated by the Company. The unforeseen delays increased the forecast of AFUDC for the project.¹¹

Since Xcel's last RES Rider filing, the Company noted that the cap coverage has been significantly mitigated. Given the favorable weather in 2025, the project contractor, Blattner, expected to achieve more construction progress in 2025 than was forecasted at the time of the filing last year; which accelerates the estimated in-service date to August 2026 from their previous estimate of October 2026, thereby reducing AFUDC.

Despite this successful mitigation, Xcel noted that recent federal executive orders were issued that are likely to result in increased cost pressure, including tariffs for solar modules and solar panels. As the market adjusts to more domestic versus foreign suppliers, the Company expects to see some price inflation over the medium-to-longer term as capital investments are made to develop domestic supply. Additionally, much depends on the administration's trade negotiations, coupled with how long the current tariff structure is held in place.

c. *Sherco Forum Battery*

The initial cost estimate provided for the Sherco Form Battery project was approved by the Commission's August 1, 2023 Order in Docket No. E-002/M-23-119. The Commission established a cost cap for the project at the amount identified in the Company's May 1, 2023 letter of that docket; unless the Company shows by clear and convincing evidence that any incremental costs above that amount were reasonable, prudent, and beyond its control. The project's costs are currently forecasted to be less than the cost cap, as shown in Attachment 5b.¹²

The Company observed that two grants were awarded for the Sherco Form Battery project, which offset the total project cost. The reduction to the total project costs equal to the combined award amounts is reflected in total project capital expenditures,¹³ in Attachments 4 and 5b.

The Department of Energy (DOE) grant was awarded, and funding is provided on a reimbursement basis. Between June 2024 and September 2025, multiple invoices were submitted and approved to capture reimbursable project costs from the DOE. To date, the Company noted that it has been reimbursed with a total of \$3 million, in accordance with the grant agreement for the project.

The project was originally expected to be placed in-service in late 2025. As Form Energy refined its manufacturing processes at its flagship plant, challenges to scaling production of the new iron-air battery technology were encountered. Xcel Energy now expects battery deliveries in

¹¹ Xcel Petition; at 9.

¹² *Id.*; at 10.

¹³ Xcel Petition at 10, Attachments 4 and 5b.

the second half of 2026, supporting a commercial operation date for the project in May 2027.

d. *Wind Repowering Portfolio*

The Commission's January 22, 2021 and June 15, 2021 Orders in Docket No. E-002/M-20-620 approved five wind facility repower projects – Grand Meadow, Nobles, Border Winds, Pleasant Valley, and Northern Wind (collectively the Wind Repowering Portfolio) – and allowed the Company to seek a Commission determination that the projects are eligible for RES Rider recovery. The Commission's October 4, 2022 Order in Docket No. E-002/M-21-794 approved recovery of revenue requirements related to the Wind Repowering Portfolio projects through the RES Rider.¹⁴ Additionally, the Commission's March 30, 2023 Order in Docket No. E-002/M-20-620 found the updated pricing for the Pleasant Valley and Border Winds projects to be reasonable, and allowed the Company to seek cost recovery for the Wind Repowering Portfolio, including the increased costs, through its RES Rider filing.¹⁵

4. North Dakota Investment Tax Credits Associated with the Courtenay Wind Project

Pursuant to the Commission's April 11, 2017 Order in Docket No. E-002/M-15-805, Xcel included North Dakota investment tax credits (NDITCs) associated with the Courtenay Wind project in its calculation of the revenue requirements. However, the NDITC amount for this project remains \$0 for the 2026 period for which the Company is requesting recovery.¹⁶

5. Renewable Energy Credit (REC) Sales

The Commission's Order in Docket No. E-002/M-12-1132 requires the Company to return 100 percent of the proceeds from the sales of RECs to customers through the RES Rider. The Order also allows the Company to submit subsequent proposals to share in REC sales proceeds to be reviewed on a case-by-case basis by the Commission.¹⁷

The Company did not sell any Minnesota RECs in 2024 or 2025. However, the Company did sell North Dakota RECs in 2024. As part of the sale of North Dakota RECs, there was a data service charge paid by the buyer. The Minnesota jurisdictional amount of the data service charge is included in this filing.

¹⁴ Xcel Petition; at 11.

¹⁵ *Id.*

¹⁶ In the Matter of the Petition of Northern States Power Company for Approval of the Renewable Energy Standard (RES) Rider True-up Report for 2015, Revenue Requirements for 2016, and a Revised Adjustment Factor, Docket No. E-002/M-15-805, ORDER APPROVING RECOVERY OF ACTUAL 2016 COSTS—INCLUDING COURTENAY WIND COSTS AND OFFSETTING TAX CREDITS—AND 2015 TRUE-UP (April 11, 2017).

¹⁷ In the Matter of a Petition by Xcel Energy for Permission to Share in the Proceeds from the Sale of Renewable Energy Credits, Docket No. E-002/M-12-1132, ORDER SETTING PROCEDURES FOR FUTURE PROPOSALS (May 17, 2013).

6. Revenue Requirements Calculation

Per approval by the Commission in the Company's prior RES Rider dockets,¹⁸ Xcel proposed allocating costs using the percentage of revenue (interim rates) methodology to determine the percentage factor based on the quotient of the RES Rider cost over the base revenues without fuel, riders, and taxes. The percentage will then be applied to existing base revenues.

The Company has included \$67,147,925 in the RES Rider tracker for the 2026 period. These calculations include:

- costs and expenses associated with the Sherco West BESS project;
- costs and expenses associated with projects previously approved for recovery through the RES Rider;
- PTCs for wind and solar facilities not included in base rates or interim rates;
- a true-up of PTCs net of transaction costs for wind facilities included in base rates; and
- the 2025 carryover balance.

Table 2 summarizes the various components of the 2026 RES Rider revenue requirements.

Table 2
RES Rider Revenue Requirements

	2026
2026 Project Revenue Requirement, net of PTCs	\$64,359,238
Carryover Balance	\$2,788,686
Revenue Requirement Total	\$67,147,925
2026 Forecasted RES Revenue Collections	\$67,146,920
Balance	\$1,005

The revenue requirements calculation was consistent with past Commission Orders and in accordance with Minn. Stat. § 216B.1645.

a. Allocation to Other Jurisdictions

The proposed revenue requirements are only those related to the State of Minnesota's retail share of eligible costs. In making its calculations, Xcel used the most current data available and the following allocators:

Interchange Agreement Allocator allocates a share of the total costs to Northern States Power Company-Wisconsin (NSPW) by multiplying total eligible costs by the Company's currently effective demand factor under the FERC-approved Interchange Agreement between NSPM and

¹⁸ Most recently in Docket No. E-002/M-24-353

NSPW.¹⁹ All investments and expenses received through the RES Rider are billed to NSPW based on demand per the Interchange Agreement.

Jurisdiction Allocator excludes the portion of Company costs not related to serving Minnesota retail customers by multiplying the Company portion of the total by the Minnesota energy allocation factor. This step allocates a share of costs to the North Dakota and South Dakota retail jurisdictions.

Xcel used the energy allocator to allocate the project PTCs to each jurisdiction. Both the energy and the demand allocators are used to allocate the projects to each jurisdiction. The Company has allocated the costs incurred in a given year with that same year's allocators to properly align cost causation with cost recovery. The principle of matching a particular year's costs to that year's allocators is consistent with the allocation methodology approved in past RES Rider dockets.²⁰

While Xcel has calculated the revenue requirements in this Petition using forecasted allocators for 2026, the Company proposed to true-up the tracker account to the actual allocators when they become available.

b. Participation in the Tax Credit Market

With the passage of the federal Inflation Reduction Act (IRA) of 2022, the Company is permitted to engage in transactions related to the transfer or sale of tax credits beginning in 2023. Xcel began selling PTCs in late 2023. In this Petition, the Company has included a true-up of the value of the transferred credits to the actual sales amounts in the RES tracker for 2024 and 2025 through June. For the second half of 2025 and 2026, Xcel has included in the tracker a forecast of the value of likely sales or transfers based on its experience in the transfer market. This forecast will be true-up in subsequent RES proceedings, based on the results of actual transfers.

Selling wind and solar PTCs results in significant net benefits to customers over time, but does result in immediate transaction costs. Overall, the Company expects the benefits of PTC transactions to substantially outweigh the transaction costs. PTC sales will avoid the continued buildup of the deferred tax asset (DTA), which will result in lower future rates for customers.

In its February 26, 2025 Order in Docket No. E-002/M-23-454, the Commission required the Company provide a PTC transaction tracker reflecting costs and benefits in future RES Rider proceedings. The Company has provided the underlying calculation to quantify the long-term benefits from selling PTCs.²¹ Xcel noted that the benefit shown in Attachment 11 will not

¹⁹ The 2024 Interchange Agreement allocation was accepted by FERC via its letter order dated May 7, 2024 in Docket No. ER24-1472. The 2025 Interchange Agreement allocators were approved by FERC on May 6, 2025 in Docket No. ER25-1620.

²⁰ The methodology is consistent with RES Rider approval dating back to Docket No. E-002/M-10-1066.

²¹ Xcel Petition, Attachment 11.

perfectly align with the refunded amount in the net operating loss (NOL) Compliance Filing made annually on July 1 since this calculation is limited to the impact of selling PTCs and does not account for all activity that will impact the DTA balance.²²

c. Production Tax Credit Forecast

PTCs are included in the costs associated with certain renewable facilities. The Commission's May 18, 2015 Order in Docket No. E-002/GR-13-868 allows the Company to true-up the forecasted PTC amount included in base rates to the actual PTC amount and incorporate the difference in the RES Rider tracker.²³

In the Company's 2024 electric rate case, Docket No. E-002/GR-24-320, Xcel proposed PTC treatment consistent with the previously approved process. Specifically, Xcel proposed setting a new baseline PTC amount in base rates for each year of the MYRP, 2025 and 2026. The Department agreed, in direct testimony, with the Company's proposal to continue to use a true-up mechanism for PTCs in the RES Rider²⁴ and recommended that the Company's PTC forecasts be updated based on the Company's updated PTC forecast provided in response to a Department Information Request.²⁵ This update reflects the Company's February 2025 PTC forecast and reflects the current PTC rates issued by the IRS on May 27, 2025.

This RES Rider filing includes both the PTC base rate true-up and actual PTCs for projects in the RES Rider that have been generated in the July 2024 through June 2025 timeframe.

d. CWIP and AFUDC

The Company noted that its calculations include recovery of a current return on the Construction Work in Progress (CWIP) balance in lieu of future recovery of an AFUDC.

The revenue requirement model includes a current return on capital expenditure beginning with the cumulative CWIP balance. The beginning CWIP balance includes AFUDC incurred prior to the eligibility date. After that date, the Minnesota jurisdictional portion of costs does not include AFUDC, and a current return is calculated on the CWIP balance. The costs included in this adjustment mechanism will not be recovered from customers under any other mechanism. Xcel noted that other NSP jurisdictions do not provide for the same ratemaking treatment of CWIP as provided in the Minnesota jurisdiction. To ensure appropriate allocation to all jurisdictions, it used the traditional method of calculating AFUDC at the total Company level.

However, beginning with the eligibility date for each project, we offset total Minnesota Company AFUDC in an amount equal to the AFUDC related to the State of Minnesota retail

²² Xcel Petition; at 15.

²³ *Id.*; 16.

²⁴ Ex. DOC-__ at 6 (Uphus Direct).

²⁵ *Id.*; at 7-8 and Schedule AU-D-1 at 1-9 (Uphus Direct).

jurisdiction. This offset, in effect, reduces the amount of AFUDC leaving only the portion that would be allocated to non-Minnesota jurisdictions. In this way, the Company ensures that costs are appropriately assigned to each jurisdiction, pursuant to their specific ratemaking procedures.

e. Accumulated Deferred Income Tax Proration

The Company calculated the 2026 revenue requirements using the alternative accumulated deferred income tax (ADIT) treatment discussed in its May 25, 2018, Supplemental Reply Comments in Docket No. E-002/M-17-818, which conformed to their understanding of the proration formula in IRS regulation section 1.167(1)-1(h)(6). Under this treatment Xcel has:

- Treated each forecast month as a test period since the revenue requirements in riders are calculated monthly. This allows the monthly ADIT balance to be reset to its un-prorated beginning balance and only the monthly activity receives the proration.
- Xcel then applied a mid-month convention for the proration factors in each month.
- Removed ADIT from the beginning-of-month and end-of-month rate base average, since the proration is itself a form of averaging. These treatments significantly reduce the proration impact on rates in these rider mechanisms.

The Company believes this treatment minimizes customer impact while still maintaining the significant deferred tax benefits provided to their customers. It requires the ADIT prorate to be embedded in the rate base calculation rather than separated as a line item.

The impact of the proposed ADIT treatment on customers is minimal compared to the magnitude of the Rider. The total impact of ADIT proration on the RES Rider under this methodology is \$5,282 on total project revenue requirements, net of PTCs of \$67,147,925 for the 2026 calendar year.²⁶ The Company noted that if the Commission approves implementation of the proposed rates on January 1, 2026, in full or provisionally, IRS rules require ADIT to be prorated for the entire forecast period.

f. Rate of Return and Return on Equity

All components of the rate of return, including the return on equity (ROE), approved in the Company's Minnesota electric rate case in Docket No. E-002/M- 21-630 have been used to determine the return on CWIP and Rate Base beginning of the MYRP as approved.²⁷

²⁶ Xcel's Petition; at 18.

²⁷ Xcel's Petition, Attachment 7.

g. Depreciation

For all wind projects in the rider in 2025 and beyond, the Company assumes a depreciable life consistent with the lives approved by the Commission in its January 9, 2024 Order for wind projects in the Annual Review of Remaining Lives (ARL) in Docket No. E,G-002/D-22-299, and Ordering Paragraph 104 of the July 17, 2023 Order in Docket No. E-002/GR-21-630.

The Company is using a depreciable life of 35 years for Solar projects, based on the vendor's recommendation and engineering analysis.²⁸ Additionally, Xcel is using a depreciable life of 10 years for the Sherco Form Battery project, as shown in Docket No. E,G-002/D-23-356, and 20 years for the Sherco West BESS project. If any changes are made to a project's remaining life in future Commission Orders, those changes will be reflected in future RES Rider filings.

h. Internal Labor Removal

The Company has excluded internal labor costs from the renewable energy projects included in this filing.²⁹

i. Additional Information

The Commission's March 20, 2008 Order in Docket No. E-002/M-07-872 stipulated that only incremental costs, not recovered elsewhere in Xcel Energy's rates, are allowed to be recovered through the Rider.³⁰ The Company confirmed that its revenue requirements include only incremental costs not recovered elsewhere in its rates. Costs recovered via the RES Rider are not included in base rates.

7. RES Rider True-up Report

The RES Rider uses a tracker account as the accounting mechanism, like other rate adjustment mechanisms. Each month, as PTCs are generated, the Company tracks the amount of recovery under the RES Rider Adjustment Factor compared to the amount included in base rates. Each month as revenues are collected from retail customers, the Company tracks the amount of recovery under the RES rate adjustment and compares that amount with the actual costs including a return on investments, depreciation expense, federal and state income taxes, production taxes, O&M expenses and royalty payments.

The under-recovered amounts are recorded in FERC Account 182.3, Other Regulatory Assets, and the over-recovered amounts are recorded in FERC Account 254, Other Regulatory Liabilities.

²⁸ Xcel's Petition; at 19.

²⁹ *Id.*, Attachment 4.

³⁰ Ordering Paragraph Number 2(a).

8. Calculation of the RES Rider Rate Factor

The RES Rider rate factor is calculated to collect the 2026 revenue requirements over twelve months beginning January 1, 2026. Implementation of this factor results in an average bill impact of \$2.14 per month for a typical residential customer using 675 kWh per month,³¹ which is an increase of \$0.05 compared to the current rate.

9. Provisional Rate Implementation Proposal

Xcel proposed to provisionally implement the 2026 RES Rider rates on January 1, 2026, if it is not otherwise possible for the full RES Petition to be approved. The Company believe implementing the new RES Rider rates on the first of each year will make the changes predictable and clearer to customers and reduce future imbalance in the RES Rider tracker.

The Company acknowledged that in some years, the proposed RES Rider rate will be an increase compared to the current rate, while in other years it will be a decrease. Xcel believes that whether the rate is an increase or decrease, consistently implementing annual RES Rider rate changes on the first of the year will simplify the rate change process and make the changes both predictable and clearer to customers. The Company acknowledged that provisional implementation of the RES Rider rate in this proceeding does not constitute a final decision on the issues discussed in the Petition.

10. Rate Case Treatment

In the Company's MYRP filed in November 2024, Xcel proposed to move the projects that would be placed in service as of December 31, 2024, and that are currently recovered through the RES Rider, into base rates. These projects are the Grand Meadow Wind Repower, Nobles Wind Repower, and Northern Wind projects. However, due to the anticipated length of time before final rates implementation at the conclusion of the rate case, Xcel proposed to continue recovery of these projects through the RES Rider where they have been recovered since construction of these projects began until the conclusion of the rate case.

Xcel proposed in the MYRP that the RES Rider continue to act as a true-up mechanism for the PTCs. This is related to projects already in service and included in base rates as a part of the 2025 test year cost of service. The Company believes this is a reasonable approach since (1) they have employed a similar approach in the past when they transferred significant capital investments from the Metro Emissions Reduction Project (MERP) Rider, the RES Rider, the Transmission Cost Recovery (TCR) Rider, and State Energy Policy (SEP) Rider to base rates; (2) continued rider recovery will result in a better matching of costs to recovery while ensuring against overlapping recovery of project costs; and (3) Xcel's interim rates were lower because these costs stayed in the RES Rider. The Company structured its rate request in this way to reduce the interim rate increase. The interim rate revenue requirement was adjusted to remove the rate base and cost components associated with the roll in RES Rider projects.

³¹ Xcel's Petition; at 20.

11. Revised Tariff Sheet

Xcel provided Attachment 14 redline and clean revisions to the RES Rider tariff, Sheet No. 5-147, reflecting the rate factor the Company proposed to implement. The Company will update the tariff sheet to reflect the actual rate factor to be implemented based on the Commission's decisions in this proceeding, and will provide a compliance filing within 10 days after an Order is received addressing either a provisional or full approval.

12. Customer Notification

The Company proposed providing the following message to customers as a notice on their January 2026 electric bills:

This month the Resource Adjustment has increased due to changes in the Renewable Energy Standard (RES) Rider, which recovers our investments and expenses to add renewable energy systems to our generation resources. The RES Rider portion of the Resource Adjustment is 2.475% of the basic service charge, energy charge, and demand charge on your bill.

Consistent with past practice, the Company will work with the Department of Commerce and the Consumer Affairs Office regarding the proposed customer notices.

13. Additional Compliance Items

1. Tax Documentation

The Commission's June 1, 2015 Order in Docket No. E-002/M-15-304 requires the Company to submit tax documentation verifying PTCs. PTC tax documentation for the year 2024 is included as Attachment 12.³²

2. Comparison of Assumed and Actual PTCs

In compliance with Ordering Paragraph 3 of the Commission's March 30, 2023 Order in Docket No. E-002/M-20-620, the Company included a comparison of assumed and actual PTC levels in Attachment 13.

The detailed analysis of actual PTC impacts provided in the RES Rider allows the Commission to review the PTC benefits that accrue to customers. However, on an annual basis, the actual PTC benefits will almost certainly be different than the amounts assumed in acquisition filings. This difference occurs because wind production varies from year to year, and the production levels assumed in the acquisition filings are based on average weather.

³² In previous filings, the Company has provided Tax Form 8835; here we provide relevant pages from Tax Form 3800 that provides the 2024 amounts by credit type.

3. Maximizing Benefits of the IRA

Ordering Paragraph 1 of the Commission's September 12, 2023 Order in Docket No. E-G999/CI-22-624 requires utilities to maximize the benefits of the IRA and address its impacts in various system planning and cost recovery proceedings, including riders. Specifically, the Order requires discussion of any impact of the IRA on planning assumptions and budgets. The IRA provides incentives for decarbonization related to renewable energy, such as wind, solar, and energy storage, as well as transportation electrification. The eligibility and applicability provisions of the IRA are specific and have detailed requirements to apply these tax credits. In general, the Company will take advantage of federal funding and tax credits where Xcel is eligible and where the Company has an applicable scope of work or a project.

The primary near-term benefits of the IRA are related to tax credits, which are returned to customers in Base Rates, RES Rider, or the Fuel Cost Adjustment (FCA) Rider. There are also potential benefits in future investments the Company is looking to continue. The Company expressed commitment to maximizing federal incentives, mitigating cost impacts, and collaborating with the Commission to navigate this evolving policy environment.

4. Modifications to Renewable Energy Tax Credit Provisions

Ordering Paragraph 7 of the Commission's February 6, 2025 Order in Docket No. E-002/M-23-454 requires the Company to make a compliance filing, notifying the Commission immediately of any federal changes that substantively impact PTCs and/or ITCs.

Under Public Law No. 119-21, also known as the One Big Beautiful Bill Act, wind and solar projects that do not begin construction by July 4, 2026 must be placed in service by December 31, 2027, to qualify for full tax credits. Wind and solar projects that begin construction by July 4, 2026, remain subject to U.S. Department of Treasury guidance that allows projects to qualify for full tax credits if placed in service by the end of the fourth calendar year following the year construction begins.

On July 7, 2025, President Trump issued an Executive Order directing the Treasury to issue "new and revised" guidance within 45 days, limiting the use of broad safe harbor provisions unless a substantial portion of the facility has already been constructed. In response, the U.S. Department of Treasury/Internal Revenue Service (IRS) issued guidance reaffirming the four-year window to place projects in service.

This change, along with the accelerated timeline for beginning construction on wind and solar projects, significantly narrows the pathway to eligibility and demands more rigorous documentation and project execution. Wind and solar projects that do not begin construction by July 4, 2026 must be placed in service by December 31, 2027 to retain any credit eligibility.

14. Conclusion

Xcel Energy requested the Commission approve:

- RES Rider recovery of costs associated with projects previously approved for rider recovery: the repowering of the Border Winds, Grand Meadow, Nobles, Pleasant Valley, and Northern Wind; Sherco Solar 1 and 2 and Sherco Solar 3 projects; and Sherco Form Battery;
- RES Rider recovery of costs associated with one new project, Sherco West BESS;
- Recovery over the established cost cap for the Sherco Solar 1 and 2 project;
- 2026 revenue requirements of \$67.1 million, which includes the PTC true-up net of transactions and a carry-over balance;
- The RES Rider rate factor of 2.475 percentage of base revenue for all customer classes to be implemented on January 1, 2026;
- Provisional implementation of the proposed RES Rider rate factor on January 1, 2026 if full approval of the Petition is not possible; and
- The proposed tariff revision and customer notice.

B. Department of Commerce – Comments

On December 26, 2025, the Department filed its Comments, recommending approval, subject to proposed modifications.

The Department noted that Xcel proposed an updated RES factor amounting to 2.475% of base revenue, an increase from the existing rate factor of 0.066% of base revenue, based on forecasted 2026 net revenue requirements of \$67.1 million.³³ Xcel estimated that the proposed RES Rider rate factor will result in an average bill impact of \$2.14 per month for a typical residential customer using 675 kWh per month, an increase of \$0.05 per month compared to the current rate.

The Department summarized Xcel's proposed revenue requirements in Table 3 below.

³³ Xcel's Petition; at 2.

Table 3: Xcel's Proposed RES Rider Revenue Requirements and Tracker Summary³⁴

Line	Item	2024	2025	2026
		Actual	Mixed	Forecast
1	Northern Wind	5,787,038	4,230,981	4,257,601
2	Nobles Wind Repower	181,908	(2,928,639)	(3,009,142)
3.	Grand Meadow Wind Re-Power	1,763,339	1,051,007	1,126,196
4	Borders Wind Re-Power	673,041	6,392,573	684,927
5	Pleasant Valley Wind Re-Power	943,125	7,786,146	(455,694)
6	Sherco Solar 1&2	33,121,786	38,411,251	28,328,742
7	Sherco Solar 3,	1,859,626	14,525,018	24,276,224
8	Sherco Battery	38,009	183,024	1,554,812
9	Sherco West BESS.			1,593,158
10 (Sum 1:9)	Project Subtotal	44,367,872	69,651,361	58,356,824
11	PTC True-Up	(29,221,929)	(10,416,675)	(4,428,888)
12	REC Sales	(35,871)		
13.	Rate Case PTC Baseline Adjustment		21,538,348	10,43,1,300.
14	Annal Revenue Requirement	15,110,071	80,773,034	'64,359,239
15	Carryover (Prior Year-End Balance)	(3,260,043)	(13,899,457)	2,788,686
16(Sum 14:15)	Net Revenue Requirement	11,850,028	66,873,577	67,147,925
17	Revenue Collections	25,749,486	64,084,891	67,146,920
18 (16 Less 17)	Year-End Balance	(13,899,458)	2,788,686	1,005

1. Department Analysis

a. New Project

The current Petition has included one new project in the 2026 RES rider revenue requirement, Sherco West Battery Energy Storage System (Sherco West BESS).³⁵ The Commission's April 21, 2025 Order in Docket Nos. E-002/RP-24-67 and E-002/CN-23-212 approving a Settlement in the Company's most recent Integrated Resource Plan (IRP) and a competitive resource acquisition process for up to 800 Megawatts of Firm Dispatchable Generation included approval of the 4-hour Sherco West BESS project.³⁶

The Department agreed that the Sherco West BESS project qualifies for recovery in the RES Rider. The Commission approved the project in the most recent IRP, and the Company is acting

³⁴ Data from 2025 RES Rider Petition, Attachment 2

³⁵ Xcel's Petition; at 1.

³⁶ In the Matter of the Petition by Xcel Energy's 2024-2040 Upper Midwest Integrated Resource Plan and Competitive Resource Acquisition Process for up to 800 Megawatts of Firm Dispatchable Generation, PUC Order, April 21, 2025, Docket No. E-002/RP-24-67 at 5 and Order Point 12 and 13 (eDockets) 202254-217941-01.

in accordance with that approval and the directives outlined in the Commission's Order. Because the project is consistent with the approved IRP portfolio and aligns with the Commission's authorization, the Department finds that inclusion of these costs for recovery is appropriate.³⁷

2. Project Cost Caps

Ordering Paragraph 4 of the Commission's February 6, 2025 Order in Docket No. E-002/M-23-454 requires the Company to detail cost caps by project and indicate where aggregate cost caps have been approved, including citations to the orders and related filings establishing and revising the cost caps, to support the stated caps in future RES Rider petitions' cost cap detail.³⁸ Xcel provided details on cost caps and project cost within its petition. The Department reviewed whether Xcel's cost recovery is below the established caps, as applicable below.

a. Sherco Solar 1 and 2

The prior RES Rider filing in Docket No. E-002/M-24-454 established cost caps for the Sherco Solar 1 and 2 projects at \$690.1 million, not including AFUDC.³⁹ The Company reported that the project's costs are forecasted to exceed the cost cap by \$3.1 million.⁴⁰

The Department noted that the Commission approved the project in Docket No. E-002/TL-21-189 in its June 23, 2025 Order, which included a cost cap.⁴¹ The current petition exceeds that cap by approximately \$3.2 million.⁴² Xcel requested that the Commission approve RES Rider recovery over the cap to include the costs related to the temporary bypass, which is a necessary part of the overall Sherco Solar 1 and 2 project to avoid lost production and results in increased maintenance and operational costs.

The Department also noted that in Xcel Energy's TCRR filing in Docket No. E-002/M-09-1048, the Commission stated the following in its April 7, 2010, Order:⁴³

...the Commission finds that TCR project cost recovery through the rider should be limited to the amount of the initial cost estimates at the time the projects are approved as eligible projects, with the opportunity for the Company to seek recovery of excluded costs on a prospective basis in a subsequent rate case. A

³⁷ Department Comments; at 5.

³⁸ In the Matter of the Petition of Northern States Power Company, for Approval of the Renewable Energy Standard (RES) Revenue Requirements for 2024, Minnesota Public Utilities Commission, Order, February 6, 2025, Docket No. E-002/M-23-454 (eDockets) 20252-215030-01.

³⁹ 2024 Res Rider Petition at 8 and 2023 RES Rider Department Comments 6.

⁴⁰ Xcel Petition, Attachment 5b.

⁴¹ In the Matter of the Petition by Xcel Energy's approval of the Sherco Solar Project, PUC Order, November 7, 2022, Docket No. E-002/M-20-891 at Order Point 1.a. (eDockets) 202211-190450-01.

⁴² Xcel's Petition; at 8.

⁴³ Department Comments; at 6.

request to allow cost recovery for project costs above the amount of the initial estimate may be brought for Commission review only if unforeseen or extraordinary circumstances arise on a project.

The Commission applied this same approach to Otter Tail Power (OTP) Company in its 2013 TCRR in Docket No. E-017/M-13- 103, ordering that OTP limit TCRR recovery of the Bemidji project to \$74 million.

Consistent with past practices, the Department recommended that the Commission deny Xcel's request to include the additional \$3.2 million in costs that are over the cap, included in the 2026 revenue requirements. The Company can seek recovery of these costs in their current rate case in Docket No. E-002/GR 24-320.⁴⁴

b. Sherco Solar 3

Xcel, in its petition, reported that delays in the Sherco Solar 3 project have resulted in forecasts that exceed the project's cost cap, which includes AFUDC.⁴⁵

Xcel attributed the overage primarily to the delay in construction, and as a result the in-service date. The Project's projection to exceed the cost cap does not impact Xcel's requested 2026 revenue requirements and stated it will "continue to monitor the construction progress and attempt to mitigate the cost overage to the extent possible, deferring discussion of prudently incurred costs to a subsequent iteration of the RES Rider."

The Department agreed with the Company's proposal to exclude the amount over the cap from its 2026 revenue requirements calculations. The Department will review this issue further in the Company's future RES Rider proceedings.

c. Sherco Battery

The Department noted that as in the 2023 RES Rider Petition, Xcel was awarded two federal grants for its Sherco Battery project, helping to offset the total project cost. Since the prior year's Petition, the Company has resolved negotiations and project logistics required by the U.S. Department of Energy (DOE) to finalize the amount of its grant.⁴⁶ Additionally, since the prior Petition, the sum of Xcel's second federal grant, the Breakthrough Energy Catalyst grant, has been forecasted.

Xcel included both of these grant figures in its updated forecast,⁴⁷ and expects the project to

⁴⁴ The Docket number referenced in error in the Department Comment was Docket No. E-017/GR-25-359. The Department's Analyst consented to the correction.

⁴⁵ Xcel Petition, at 8 and Attachment 5b.

⁴⁶ 2024 RES Rider Petition at 11, amount is trade secret.

⁴⁷ Xcel Petition, Attachment 4 and 5b, amounts are trade secret.

be placed in-service in the second half of 2026.⁴⁸

Based on the above, the Department concluded the Sherco Battery project costs are currently below the cost cap and reasonable for RES Rider recovery.

d. Wind Repower Portfolio

The October 4, 2022 Order in the 2022 RES Rider tracker approved RES Rider cost recovery eligibility for the Wind Repower Portfolio including the Nobles, Grand Meadows, Border Winds, Pleasant Valley, and Northern Wind projects.⁴⁹ In Response Comments, in the 2023 RES Rider docket, the Department agreed with the Company's interpretation of prior Commission Orders on January 22, 2021⁵⁰ and June 15, 2021 related to wind repower costs being subject to an aggregate cost cap, rather than each discrete project subject to a discrete project-specific cost cap.⁵¹ In its February 6, 2025 Order in Docket No. E-002/M-23-454, the Commission concurred and required Xcel to detail cost caps by project and indicate where aggregate cost caps have been approved.⁵²

Xcel's data shows aggregate forecasted costs of its repower portfolio being equal to its aggregate cost cap which includes AFUDC. The project's costs are currently forecasted to be less than the cost cap.⁵³ Based on the above, the Department concluded that on an aggregate basis, the Wind Portfolio Projects are currently below the cost cap and reasonable for RES Rider recovery.

3. North Dakota Investment Tax Credits

In its April 11, 2017 Order, in Docket No. E-002/M-15-805, the Commission included North Dakota Investment Tax Credits (NDITCs) associated with the Courtenay Wind Project, in the revenue requirements calculation.⁵⁴ Xcel stated that the NDITC amount for the Courtenay Wind Project remains at \$0 for 2025.⁵⁵

⁴⁸ Xcel's Petition; at 11.

⁴⁹ In the Matter of the Petition of Northern States Power Company, for Approval of the Renewable Energy Standard (RES) Revenue Requirements for 2022 and a Revised Adjustment Factor, Minnesota Public Utilities Commission, Order, October 4, 2022, Docket No. E-002/M-21-794, (eDockets) 202210-189544-01 at 3.

⁵⁰ In the Matter Xcel Energy's Wind Repower Portfolio, Minnesota Public Utilities Commission, Order, January 22, 2021, Docket No. E-002/M-20-620, (eDockets) 20211-170112-01.

⁵¹ *In the Matter of the Petition of Northern States Power Company, for Approval of the Renewable Energy Standard (RES) Revenue Requirements for 2024 and a Revised Adjustment Factor*, Minnesota Department of Commerce, Response Comments, August 8, 2024, Docket No. E-002/M-23-454, (eDockets) 20248-209342-02 at 2-3.

⁵² 2023 RES Rider Order, Order Point 4

⁵³ Xcel Petition, Attachment 5a.

⁵⁴ *In the Matter of the Petition of Northern States Power Company for Approval of the Renewable Energy Standard (RES) Rider True-up Report for 2015, Revenue Requirements for 2016, and a Revised Adjustment Factor*, Minnesota Public Utilities Commission, Order, April 11, 2017, Docket No. E-002/M-15-805, (eDockets) 20174-130693-01.

⁵⁵ Xcel's Petition; at 12.

4. Renewable Energy Credit Sales

The Commission's May 17, 2013 Order in Docket No. E-002/M-12-1132 requires the Company to return 100% of the proceeds from REC sales to customers through the RES Rider.⁵⁶ The Order allows Xcel to submit subsequent proposals to share in REC sales proceeds, which the Commission will review on a case-by-case basis. In its Petition, Xcel stated that it did not sell any Minnesota RECs in 2024 or 2025.⁵⁷

5. Production Tax Credits

As indicated in Table 3 above, Xcel proposed PTC true-ups for projects recovered in base rates of (\$29,221,929) and (\$10,416,675) in 2024 and 2025,⁵⁸ respectively. PTCs for projects recovered in the RES Rider are included in those projects' revenue requirements, which are trued-up to actuals through the rider.⁵⁹ Xcel provided PTC tax documentation for 2024 in Attachment 12 of its Petition⁶⁰ and a comparison of actual to forecasted PTC levels in Attachment 13. The Department reviewed Xcel's proposed PTC true-up resulting in additional credits to ratepayers below.

a. PTC Base Rate True-up

The Projects recovered in based rates in 2024 were Pleasant Valley, Border Winds, Courtenay, Blazing Star I, Foxtail, Crowned Ridge, Lake Benton, Blazing Star II, Freeborn, Dakota Range, Jeffers, Community Wind North, and Mower. Beginning in 2025, Xcel added Sherco Battery and Sherco Solar 3.

In a Trade Secret Table,⁶¹ Xcel showed how it calculated its proposed base-rate true-up amounts. Xcel used PTC amounts cited in its rate case in Docket No. E-002/GR-21-630. For 2025, the Company used amounts from its more recent rate case in Docket No. E-002/GR-24-320.⁶²

The Department did not express objections to Xcel's proposed true-up for PTCs of projects recovered in base rates, which resulted in additional PTC credits for ratepayers for 2024 and 2025. The Department concluded that Xcel's proposal complied with the Commission's Order in the 2024 RES Rider.

⁵⁶ In the Matter of a Petition by Xcel Energy for Permission to Share in the Proceeds from the Sale of Renewable Energy Credits, Minnesota Public Utilities Commission, Order, May 17, 2013, Docket No. E-002/M-12-1132, (eDockets) 20135-87107-01.

⁵⁷ Xcel's Petition; at 12.

⁵⁸ Xcel's Petition, Attachment 2.

⁵⁹ Xcel's Petition; at 15

⁶⁰ *Id.*, Attachment 12.

⁶¹ Department Comments; at 9.

⁶² Xcel's Petition, Attachment 10.

b. PTC Transfers

The Department noted that Xcel began transferring (selling) PTCs in 2023 and has included a true-up of the transferred credits to the actual sales amounts in its PTC Tracker in Attachment 10 of its Petition for 2024 and 2025 through June. The tracker also includes a forecast for the remainder of 2025 through 2026 and will be trued-up in subsequent RES proceedings.⁶³

c. Cost/Benefit Analysis

In its Response Comments for the 2023 RES Rider petition, the Department recommended that Xcel provide a tracker of PTC transaction costs and benefits.⁶⁴ In its February 6, 2025 Order, the Commission required Xcel to track the actual costs and benefits of selling PTCs in its annual RES Rider petitions.⁶⁵ The instant Petition included the recommended tracker as Attachment 11.

Participation in the PTC market comes with costs, but Xcel contended that the cumulative benefit of reducing the Deferred Tax Asset (DTA) through the sale of PTCs outweighs the costs. The Company estimated that through 2026, selling PTCs will provide a net benefit, because the discount reduces the gross PTC amount passed through to customers in the RES rider.

The Department agreed with Xcel's general approach to using annual DTA compliance to return to ratepayers the benefit of transferring PTCs.

d. PTC Planning Models vs Actuals

As indicated in Xcel's Attachment 13 for the 2020-2024 period, actual PTCs were \$72.6 million lower than Xcel assumed in its modeling used to justify acquiring the projects. The Department noted that the Commission has consistently ordered, as a ratepayer protection, that it will hold Xcel accountable for assumed benefits that do not materialize.⁶⁶

In the 2023 RES Rider docket, Xcel provided details on additional benefits of its renewable energy production facilities outside of PTCs, showing the present value of societal cost (PVSC) and present value of revenue requirements (PVRR) analyses; indicating a greater total value for customers than the Company believes is captured in PTC data alone.⁶⁷

⁶³ Xcel's Petition; at 15.

⁶⁴ In the Matter of the Petition of Northern States Power Company, for Approval of the Renewable Energy Standard (RES) Revenue Requirements for 2024 and a Revised Adjustment Factor, Minnesota Department of Commerce, Response Comments, August 8, 2024, Docket No. E-002/M-23-454, (eDockets) 20248-209342-02 at 5.

⁶⁵ Department's Comments; at 11.

⁶⁶ In the Matter of the Petition of Xcel Energy for Approval of the Acquisition of Wind Generation from the Company's 2016-2030 Integrated Resource Plan, Minnesota Public Utilities Commission, Order, September 1, 2017, Docket No. E-002/M-16-777, (eDockets) 20179-135205-01 at 10, Order Point 1

⁶⁷ In the Matter of the Petition of Northern States Power Company, for Approval of the Renewable Energy Standard (RES) Revenue Requirements for 2024 and a Revised Adjustment Factor, Xcel Energy, Reply Comments, July 11, 2024, Docket No. E-002/M-23-454, (eDockets) 20247-208501-01 at 7-9.

The Department acknowledged that PTCs are one metric of measuring these projects' benefits, while also encouraging Xcel to improve capacity factor estimates at the planning stage to ensure projects are selected on a least cost basis.

6. Revenue Requirements Calculation

As indicated in Table 3 above, Xcel's petition proposed recovering \$64,359,239 in net revenue requirements for 2026 prior to the 2025 true-up, or a \$67,147,925 revenue requirement for 2026 with 2025 true-up. This represents a slight increase from the 2025 total revenue requirement, remaining largely consistent with last year's level.

In Attachment 8 of this petition, Xcel detailed the 2026 projected revenue requirement by project, while the 2026 PTC True-up is detailed in Attachment 10. The Company estimated it under-collected the 2025 revenue requirement by \$2,788,686, which is included in the 2026 revenue requirement calculation. The Company estimated that it will collect \$1,005 less than the revenue requirement requested in 2026, which will carry forward as a tracker balance to 2027.

The Department reviewed Xcel's revenue requirement calculations and did not identify any objections to Xcel's proposed methodology. The Department, however, recommended that the Commission deny Xcel's request to include the \$3.2 million in costs that exceed the approved cap for the Sherco Solar 1 and 2 Projects. The Department recommended that the Company, in its reply comments, update the 2026 revenue requirements and RES Rider rate factors that exclude the \$3.2 million.

7. Jurisdictional Allocation

The Department noted that Xcel used the same jurisdiction allocation methodology used on prior RES Rider filings.⁶⁸ The allocators are documented in Attachment 7 of the Petition.

The Company used the most current data available to allocate Minnesota's share of the eligible costs. The actual allocator used to true-up the tracker will be consistent with the Company's annual jurisdictional report, filed on May 1 each year.⁶⁹ The Department confirmed Xcel's jurisdictional allocators are reasonable.

8. Construction Work in Progress and Allowance for Funds Used During Construction

In lieu of future recovery for AFUDC, Xcel proposed to recover a current return on CWIP.⁷⁰ The

⁶⁸ In the Matter of the Petition of Northern States Power Company, for Approval of the Renewable Energy Standard (RES) Revenue Requirements for 2024 and a Revised Adjustment Factor, Xcel Energy, Reply Comments, July 11, 2024, Docket No. E-002/M-23-454, (eDockets) 20247-208501-01 at 7-9.

⁶⁹ Xcel's Petition; at 14 (The jurisdictional reports are filed in Docket No. E-G999/PR-24-4, the year in docket numbers reflect each year of the report)

⁷⁰ Department's Comments; at 13.

Company calculated cumulative CWIP balances for projects based on the eligibility dates as shown in Table 4:

Table 4: Project Eligibility Dates⁷¹

Eligibility Date	Projects
January 1, 2021	Border Winds Repower, Grand Meadow Repower, Nobles Repower, Pleasant Valley Repower, Northern Wind and Rock Aetna Repower
January 1, 2022	Sherco Solar 1 and 2
January 1, 2023	Sherco Solar 3 and Sherco Form Battery
January 1, 2025	Sherco West BESS

Xcel included the AFUDC incurred prior to the eligibility date within the beginning CWIP balance. The Company stated that the costs included in this adjustment mechanism will not be recovered from customers under any other mechanism.

9. Accumulated Deferred Income Tax Proration

The Department observed that as in prior year's RES Rider Petition, Xcel calculated the 2025 revenue requirement using an alternative accumulated deferred income tax (ADIT) treatment.⁷² The Company stated that its alternative ADIT treatment conforms to the Company's understanding of the proration formula in IRS regulation § 1.167 (1)-1(h)(6).

10. Rate of Return and Return on Equity

The Department noted that Xcel used a Return on Equity of 9.25 percent as set by the Commission in the July 17, 2023 Order in Docket No. E-002/GR-21-630.⁷³ The Weighted Average Cost of Capital (WACC) of 6.95 percent for years 2024 – 2027⁷⁴ matches those set by the Commission in its Order in Docket No. E-002/GR-21-630.

11. Depreciation

The Department asserted that Xcel is using a depreciable life of 10 years for the Sherco Form Battery project, as shown in Docket No. E,G-002/D-23-356⁷⁵ and 20 years for the Sherco West

⁷¹ Xcel's Petition; at 17.

⁷² Xcel's Petition; at 18.

⁷³ In the Matter of the Application of Northern States Power Company, dba Xcel Energy, for Authority to Increase Rates for Electric Service in the State of Minnesota, Minnesota Public Utilities Commission, Order, July 17, 2023, Docket No. E-002/GR- 21-630, (eDockets) 20237-197559-01 at 92-93

⁷⁴ Xcel's Petition, Attachment 7.

⁷⁵ In the Matter of Northern States Power Company, d/b/a Xcel Energy's Petition for Approval of the 2023 Annual Review of Remaining Lives (ARL) and Depreciation Rates for Electric and Gas Production and Gas Storage Facilities (EGPS) & for Transmission, Distribution, and General Accounts (TDG) & Five-Year Transmission, Distribution, and General Depreciation Study, Docket No. E,G-002/D-23-356, (eDockets) 20249-210074-03.

BESS project. The Company noted that a depreciable life of 35 years is used for the solar projects and 10 years for the Sherco Form Energy Long-Duration Battery Storage Pilot. If changes are made to a project's remaining life, such changes will be reflected in future RES Rider filings.

12. Incremental Costs

The Commission allows recovery of only incremental costs not recovered elsewhere through the RES Rider.⁷⁶ The Department reviewed Xcel's rider revenue requirements and agreed with the Company that it is not double recovering costs of renewable projects.

13. Factor Calculation

The Department noted that Xcel's past RES Rider dockets allocated costs using the percentage of revenue methodology to determine the percentage factor, based on the quotient of the RES Rider cost over the base revenues without fuel, riders, and taxes. Xcel calculated the proposed RES Rider rate factor to collect its proposed 2026 net revenue requirements over 12 months, starting January 1, 2026.⁷⁷ The Department concluded that Xcel's methodology continues to be reasonable.

14. Department Recommendations

The Department recommended as follows:

- Approve the one new project, Sherco West BESS be included in this and future RES Rider recovery cost calculations.
- Approve the Company's RES Rider revenue requirements for 2026 after excluding the \$3.2 million in costs that are over the cap for the Sherco Solar 1 and 2 projects. The Department recommended the Company provide updated 2026 revenue requirements and RES Rider rate factor that excludes the \$3.2 million in costs in reply comments.

C. Xcel's Reply Comments

On January 15, 2026, Xcel filed its Reply Comments to the Department's December 26, 2025 Comments. In the Reply Comments, Xcel addressed the reasons why the RES Rider recovery of costs exceeding the Sherco Solar 1 and 2 project (Project) cost cap related to the temporary transmission bypass project are in alignment with the Commission's Order approving the project, and previous Commission determinations. The Company also provided clarification regarding the PTC true-up.

⁷⁶ In the Matter of a Petition by Northern States Power Company d/b/a Xcel Energy to Establish a Renewable Energy Standard Cost Recovery Rider and for Approval of 2008 Adjustment Factor, Minnesota Public Utilities Commission, Order, March 20, 2008, Docket No. E-002/M-07-872, (eDockets) 5017717.

⁷⁷ Xcel's Petition; at 20.

1. Sherco Solar 1 and 2 Cost Exclusion

Xcel disagreed with the Department's recommended disallowance of \$3.2 million in costs over the established cost cap for the Sherco Solar 1 and 2 project, due to extraordinary circumstances that arose on the Project. Xcel contended that full Rider recovery is appropriate for the following three reasons:

a. The Commission has authority to approve recovery of costs over the cap if it determines those costs were prudently incurred

Xcel asserted that while a cost cap was established for the Project,⁷⁸ the Commission has authority to approve recovery of costs over the cap if it determines that such costs were prudently incurred, either through rider recovery or in a future rate case. For instance, the Company's price update for the Border Winds and Pleasant Valley Wind Repowering projects on October 14, 2022 in Docket No. E-002/M-20-620, when Xcel explained why costs had increased and requested recovery over the established cost cap. The Commission's March 30, 2023 Order authorized the Company to seek rider recovery of the additional costs.⁷⁹

Xcel noted in the instant petition and in Xcel's Application for a Minor Route Alteration, that the temporary bypass would remedy an unforeseen icing issue to ensure consistent performance and operation of the comprehensive solar facility, which is an important resource on the overall NSP System. The additional expense will facilitate the solar plant functioning at its optimum level, which will also enable the Company to deliver on assumed production benefits.⁸⁰ Xcel therefore requested recovery of the costs for the temporary bypass through the RES Rider.

b. The previous Commission decision cited in the Department's Comments supports rider recovery

The Company cited that the Department's rationale to justify denying recovery costs over the cap relies on the Commission's finding,⁸¹ that "project cost recovery through the rider should be limited to the amount of the initial cost estimates at the time the projects are approved as eligible projects, with the opportunity for the Company to seek recovery of excluded costs on a prospective basis in a subsequent rate case."⁸² Xcel contended that this interpretation ignores aspects of the Commission's rationale that are critical to the issue in this proceeding. The Company noted that the remainder of the quoted language above stated as follows:

A request to allow cost recovery for project costs above the amount of the initial estimate may be brought for Commission review only if unforeseen or

⁷⁸ See Ordering Paragraph 1a of the Commission's November 7, 2022 Order in Docket No. E-002/M-20-891 (November 2022 Order).

⁷⁹ Xcel Reply Comments; at 2.

⁸⁰ Xcel Reply Comments; at 2.

⁸¹ Commission Order, Docket No. E-002/M-09-1048; at 6.

⁸² *Id.*; at 2-3.

extraordinary circumstances arise on a project.

The Company asserted that the circumstances necessitating costs above the initial estimate for the Project meet the standard of unforeseen and extraordinary. The unforeseen and extraordinary circumstance was icing on the line, which necessitated that the line be taken offline to manually clear the accumulated ice. Xcel noted that this also meant that the Sherco Solar 1 project was similarly offline and unable to deliver energy to the grid during an icing event. Hence, the temporary bypass project is a necessary and practicable approach to maintain near-term operations at Sherco Solar 1 until cessation of operations of the coal units.

c. The Commission's Order does not expressly limit the Company from requesting recovery of additional costs that are driven by unforeseen and extraordinary events

Given the absence of language that limits the Company from requesting recovery of additional costs that are driven by unforeseen and extraordinary events, Xcel maintained that rider recovery is appropriate; and requested the Commission approve RES Rider recovery over the cap for the Project to include costs related to the temporary bypass project.

The Company noted the Department's suggestion to include the costs over the cap for the Project in their current pending rate case.⁸³ Procedurally however, there is no additional opportunity to amend the Rate Case to include these costs, as the testimony submissions and evidentiary hearings are concluded. Hence, the Company asserted it would seek recovery of costs over the cap in a future rate case, should the Commission deny recovery through this rider.

Xcel provided revised revenue requirements as requested by the Department, showing the impact of the application of the cost cap for Sherco 1 and 2, which decreases the 2026 revenue requirement by \$245,162.⁸⁴ Xcel contended that its initial Project cost cap was exceeded by \$3.1 million, not \$3.2 million. Consequently, if the Commission approves the Department's recommendation to cap the Project's cost, the Company will cap the Project at the approved total Project cost cap of \$690,100,000, excluding the cap overage of \$3,127,973 as shown in Attachment 5b.⁸⁵

Table 5 below recalculates the 2026 RES Rider rate, using the revised revenue requirement and provides a comparison to the original filing.

⁸³ Docket No. E-002/GR-24-320.

⁸⁴ Xcel's Reply Comments; at 4.

⁸⁵ *Id.*

Table 5: Adjustment Factor Comparison⁸⁶

	2026 Proposed	2026 Updated
Total Revenue Requirements	\$67,147,925	\$66,902,763
Total Rate Factor	2.475%	2.466%
Increase Compared to Current Rate	0.066%	0.057%

2. PTC True-up Clarification

In addition to the Department's summary of PTCs in parts 5 and 5.a. of this document (parts E and E.1 of the Department's Comments), the Company clarified that the PTC true-up includes both lines 13 and 15 shown on Attachment 2. Line 13 reflects the PTC true-up based on the baseline established in the Company's initial filing of the pending electric rate case in Docket No. E-002/GR-24-320.

As noted in this RES Rider Petition, an update was made to the PTC baseline in the Company's rate case Rebuttal testimony.⁸⁷ This adjustment is reflected on line 15 of Attachment 2. The PTC true-up for projects recovered in base rates is (\$29,221,929) and \$11,121,674 in 2024 and 2025, respectively.

3. Conclusion

In conclusion, Xcel requested approval of its 2026 RES Rider as filed, including full cost recovery of the Sherco Solar 1 and 2 project.

D. Department – Response Comments

On March 19, 2026, the Department filed its Response Comments to Xcel's January 15, 2026 Reply Comments. The Department recommended approval of the Petition with modification as described in the following sections.

1. Sherco Solar 1 and 2 Cost Exclusion

The Department contended that although the Commission approved a pricing update for the Border Winds and Pleasant Valley Wind Repowering projects in its March 30, 2023, Order⁸⁸ in Docket No. E-002/M-20-620, the circumstances were largely unforeseeable at the time of the project approval. Specifically, the increased costs were attributed to:

⁸⁶ Xcel's Reply Comments; at 4.

⁸⁷ Xcel's Petition, at 16-17.

⁸⁸ In the Matter of a Petition by Northern States Power Company d/b/a Xcel for Approval of Updated Pricing for the Border Winds and Pleasant Valley Wind Repowering Projects, Minnesota Public Utilities Commission, Order, March 30, 2023, Docket No. E-002/M-20-620, (eDockets) 20233-194327-01.

(1) inflationary impacts resulting from the COVID-19 pandemic; (2) the need to replace turbines rather than retrofit them as originally planned, including associated disposal costs; (3) the disallowance of the Company's use of customer property for transportation to and from the project site.⁸⁹

Unlike the unforeseeable cost drivers cited for the Boarder Winds and Pleasant Valley Wind Repowering projects, the Department asserted that the \$3.2 million in costs related primarily to winter ice management issues in Minnesota, were foreseeable operational considerations. Consequently, the Department recommended that these costs be excluded from the recovery in accordance with the Commission's established guidelines.

2. PTC True-up Clarification

After reviewing the clarification statement made by Xcel in its Reply Comments,⁹⁰ the Department acknowledged the Company's commitment to provide supporting documentation in the 2025 True-Up filing and will review the PTC true-up for actual 2025 and 2026 amounts in the Company's 2027 RES Rider.

3. Department's Recommendations

Based on its analysis of the information in the record, the Department made the following recommendations.

- As addressed in Department's December 26, 2025, initial comments, the Department recommends that the Commission approve the one new project, Sherco West BESS, be included in this and future RES Rider recovery cost calculations.
- The Department recommended that the Commission approve the Company's 2026 RES Rider revenue requirements, excluding the \$3.2 million in costs that exceed the cap for the Sherco Solar 1 and 2 projects.
- The Department acknowledged the Company's clarification regarding the PTC true-up and looks forward to reviewing the 2027 RES Rider filing, at which time complete actual data for calendar years 2025 and 2026 will be available.

E. Staff Comments

Staff concurs with the Department for approval of Xcel's 2026 RES Rider revenue requirements, given that the Company complied with the eligibility requirements for recovery. In terms of the \$3.2 million in costs that exceeded the cap for the Sherco Solar 1 and 2 projects, the parties maintained their opposing positions. Xcel's initial forecast for this cost was \$3.1 million, which

⁸⁹ Department's Response Comments; at 2.

⁹⁰ Xcel's Reply Comments; at 5.

was subsequently changed by the Company to \$3.2 million. Staff notes that the Commission's April 7, 2010 Order in Docket No. E-002/M-09-1048, included an option for request to allow cost recovery of "project costs above the amount of the initial estimate for Commission review, only if unforeseen or extraordinary circumstances arise on a project."⁹¹

The Company contended that the temporary bypass was to remedy an icing issue, that was unforeseeable, to ensure consistent performance. The Department, however, countered that the winter ice management issues in Minnesota were foreseeable operational issues.

Staff note that the decision on whether the temporary bypass to remedy the icing issue was foreseeable or unforeseeable, may be assessed further by the Commission with the parties during the Agenda Meeting.

F. Decision Options

1. Determine that prudent costs of the Sherco West BESS project are eligible for recovery through the RES Rider. (Xcel, Department)
2. Approve Xcel's 2026 RES Rider revenue requirements, excluding the \$3.2 million in costs that exceeded the cap for the Sherco Solar 1 and 2 projects. (Department)

Or

3. Approve Xcel's 2026 RES Rider revenue requirements, including the \$3.2 million in costs that exceeded the cap for the Sherco Solar 1 and 2 projects. (Xcel)

⁹¹ Department's Comments; at 6.