

Staff Briefing Papers

Meeting Date May 22, 2025

Agenda Item 2*

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

Docket No. E-002/M-24-353

In the Matter of Xcel Energy's Petition for approval of its 2025 Renewable Energy Standard Rider Revenue Requirements

Issues Should the Commission accept Xcel Energy's 2025 Renewable Energy Standard Rider Petition and approve its associated revenue requirements?

Should the Commission approve Xcel Energy's proposal to establish a regulatory liability for flowback of Investment Tax Credits related to the Sherco Battery project?

Staff Hirsi Mohamed hirsi.mohamed@state.mn.us (651) 201-2231

✓ **Relevant Documents**

Date

Xcel Energy – Initial Petition (Public & Trade Secret)

October 23rd, 2025

Department of Commerce – Letter

November 25th, 2025

Public Utilities Commission – Consent Order

December 17th, 2025

Department of Commerce – Comments (Public & Trade Secret)

March 5th, 2025

Xcel Energy – Reply Comments

March 17th, 2025

To request this document in another format such as large print or audio, call 651.296.0406 (voice). Persons with a hearing or speech impairment may call using their preferred Telecommunications Relay Service or email consumer.puc@state.mn.us for assistance.

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.

Table of Contents

I.	Statement of the Issues	2
II.	Background	2
III.	Xcel Energy – Petition	2
1.	Status Update of Projects Previously Approved for RES Rider Recovery.....	3
2.	Project Cost Caps	5
3.	North Dakota Investment Tax Credits Associated with the Courtenay Wind Project and South Dakota Reinvestment Program Grant	5
4.	Renewable Energy Credit (REC) Sales	5
5.	Revenue Requirements and RES Rider Adjustment Factor	6
6.	RES Rider True-up Report	10
7.	Calculation of the RES Rider Rate Factor	10
8.	Provisional Rate Implementation Proposal	10
9.	Rate Case Treatment	10
10.	Proposed Tariff Revisions and Customer Notice	11
IV.	Department of Commerce – Comments	12
1.	Enabling Statute.....	12
2.	RES Rider Eligibility.....	13
3.	Project Cost Caps	13
4.	Revenue Requirement Calculation.....	15
5.	Jurisdictional Allocation	16
6.	Construction Work in Progress and Allowance for Funds Used During Construction ..	16
7.	Accumulated Deferred Income Tax Proration	16
8.	Rate of Return and Return on Equity.....	17
9.	Depreciation.....	17
10.	Internal Labor Removal	17
11.	Incremental Costs	17
12.	Factor Calculation	17
13.	Recommendations	18
V.	Xcel Energy – Reply Comments	18
VI.	Staff Comments	18
VII.	Decision Options	19

I. Statement of the Issues

- Should the Commission accept Xcel Energy's 2025 Renewable Energy Standard Rider Petition and approve its associated revenue requirements?
- Should the Commission approve Xcel Energy's proposal to establish a regulatory liability for flowback of Investment Tax Credits related to the Sherco Battery project?

II. Background

On October 10, 2025, Northern States Power Company, doing business as Xcel Energy (Xcel, Company), filed a petition (Petition) requesting approval of the Company's proposed 2025 Renewable Energy Standard (RES) Rider revenue requirements and its corresponding adjustment factor (RES Factor). Xcel's Petition included a request to, effective January 1, 2025, provisionally implement a 2.41% RES Factor

On November 25, 2025, the Department of Commerce (Department) submitted a letter recommending provisional approval of the 2.41% RES Factor.

On December 17, 2025, the Commission issued an Order approving the provisional RES Factor.

On March 5, 2025, the Department filed its Comments and recommended the Petition be approved.

On March 17, 2025, Xcel filed a letter in response to the Department's March 5, 2025 comments, agreeing to the Department's recommendation.

III. Xcel Energy – Petition

The RES Rider mechanism is designed to provide timely cost recovery for renewable energy investments that help Xcel meet state and federal renewable energy mandates. This includes investments in wind, solar, and battery storage projects, as well as associated transmission and infrastructure. Through subsequent Commission Orders, the RES Rider also includes revenue adjustments, such as production tax credit (PTC) true-ups and deferred tax asset (DTA) benefits, which help offset customer costs.

The Company's proposed 2.41% recovery factor,¹ which is a significant increase from the current factor of 0.981%,² applies to all customer classes and is based on a total 2025 revenue requirement of \$64.6 million.

¹ The proposed 2.41% recovery factor was provisionally approved on December 17, 2025 in this docket.

² The current 0.981% recovery factor, effective January 1, 2024, was approved in Docket No. E-002/M-23-454.

Xcel requested approval of the following items:³

- Recovery of costs associated with the repowering of the Border Winds, Grand Meadow, Nobles, Pleasant Valley and Northern Wind projects; Sherco Solar 1 and 2, Sherco Solar 3 and Sherco Battery projects;
- Total 2025 revenue requirements of \$64.6 million, which includes the tracker carryover balance and the PTC true-up;
- A RES Rider recovery factor of 2.41% to be implemented on January 1, 2025;
- Provisional implementation of the proposed RES Rider rate factor on January 1, 2025, if full approval of the Petition is not possible; and
- The proposed tariff revision and customer notice.

1. Status Update of Projects Previously Approved for RES Rider Recovery

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

Table 1: Commercial Operation Dates

Project Name	Final or Estimated COD	Status Notes	Recovery Method as of 1/1/24
Blazing Star I	April 2020	In-service	Base Rates
Blazing Star II	January 2021	In-service	Base Rates
Foxtail	December 2019	In-service	Base Rates
Freeborn	May 2021	In-service	Base Rates
Crowned Ridge	December 2020	In-service	Base Rates
Lake Benton	December 2019	In-service	Base Rates
Dakota Range I and II	January 2022	In-service	Base Rates
Jeffers	January 2021	In-service	Base Rates
Community Wind North	January 2021	In-service	Base Rates
Mower	March 2021	In-service	Base Rates
Border Winds Repower	December 2025	Under Construction	RES Rider
Grand Meadow Repower	March 2023	In-service	RES Rider
Nobles Repower	December 2022	In-service	RES Rider
Pleasant Valley Repower	December 2025	Under Construction	RES Rider
Northern Wind Repower & Rock Aetna	January 2023 and December 2022	In-service	RES Rider

³ Petition, at 2.



Project Name	Final or Estimated COD	Status Notes	Recovery Method as of 1/1/24
Sherco Solar 1	October 2024	Under Construction	RES Rider
Sherco Solar 2	October 2025	Under Construction	
Sherco Solar 3	October 2026	Under Construction	RES Rider
Sherco Battery	December 2025	Under Construction	RES Rider

a. Sherco Solar 3

Sherco Solar 3 is currently under construction but, due to significant delays, its new anticipated in-service date has been revised from November 2025 to as late as October 2026. These delays stemmed from unforeseen setbacks during the permitting process, including a reconsideration petition that postponed site permit final approval until late September 2024. As a result, construction activities could not begin during the optimal summer window and were limited to fall 2024, with a full pause over the winter months. This shift not only delayed the project but also increased the project's financing costs due to a higher allowance for funds used during construction (AFUDC). Despite the delay and the projected cost overrun—mainly due to the increased AFUDC—Xcel Energy has included Sherco Solar 3 provisionally in the 2025 RES Rider for preliminary recovery planning, with a full prudence review of cost overruns deferred to a future filing.

b. Sherco Battery

The Sherco Battery project is a 10-megawatt long-duration energy storage system that is being built at the Sherco site in Becker, Minnesota. As of the 2025 RES Rider filing, the battery is still under construction and is expected to be operational by the end of 2025. Xcel received two major federal grants to help pay for the project, which has helped lower the overall cost. Therefore, the project is now expected to stay well below its approved budget limit. Xcel also plans to claim an Investment Tax Credit (ITC) for the project and proposes to return that benefit to customers gradually over a 10-year period, instead of all at once. A benefit to having credit spread over a longer time period is that it prevents rate spikes, spreads benefit fairly over the life of asset and avoids intergenerational inequity. While the project is not yet complete, it is included in the RES Rider for planning, and Xcel will request full cost recovery after the project is finished and reviewed by regulators.

2. Project Cost Caps

a. Sherco Solar 1 and 2

The Commission's November 7, 2022 Order⁴ approved the Sherco Solar Project – known as Sherco Solar 1 and 2 – with project cost of \$690.1 million, not including AFUDC. As of this filing, Xcel forecasted project costs are to be less than the cost cap.⁵

b. Sherco Solar 3

Due to permitting and construction delays, which have increased financing costs, particularly AFUDC, Xcel has forecasted that the Sherco Solar 3 (trade secret) cost cap⁶ will be exceeded. Although most of these added costs are related to timing rather than direct construction overruns, Xcel acknowledged the potential budget exceedance and noted that a full prudency review of these costs will be addressed in a future filing. For now, Sherco Solar 3 is included in the RES Rider provisionally, with cost recovery pending further regulatory review.

c. Sherco Battery

Thanks to U.S. Department of Energy and the Breakthrough Energy Catalyst fund grants, the project is currently forecasted to stay well below this cap.⁷ These grants, along with anticipated federal tax credits, are expected to substantially reduce the project's overall cost.

3. North Dakota Investment Tax Credits Associated with the Courtenay Wind Project and South Dakota Reinvestment Program Grant

Pursuant to the Commission's April 11, 2017 Order⁸, the Company included North Dakota investment tax credits (NDITCs) associated with the Courtenay Wind project in its calculation of the revenue requirements. The NDITC amount for this project remains \$0 for the 2025 period for which Xcel is requesting recovery.

4. Renewable Energy Credit (REC) Sales

Pursuant to a previous Order,⁹ Xcel is required to return to ratepayers, through the RES Rider, all REC sales proceeds. However, the Order allows the Company to submit subsequent

⁴ Docket No. E-002/20-891.

⁵ See Petition, Attachment 5.

⁶ Petition, at 8.

⁷ *Id.*

⁸ Docket No. E-002/M-15-805.

⁹ Commission's May 17, 2013 Order, Docket No. E-002/M-12-1132.

proposals to share in REC sales proceeds, to be reviewed on a case-by-case basis. Xcel does not plan to sell any Minnesota RECs in 2025.

5. Revenue Requirements and RES Rider Adjustment Factor

a. Revenue Requirements Calculation

Xcel is using the percentage of (interim rates) revenue methodology to determine the percentage factor, which is 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 included \$64,599,928 in the RES Rider tracker for the 2025 period. These calculations include:

- costs and expenses associated with the Sherco Solar 3 project and the Sherco Battery project whose inclusion in the RES Rider is still pending a commission decision;
- costs and expenses associated with projects previously included in the RES Rider;
- PTCs for wind facilities not included in base rates or interim rates;
- a true-up of PTCs for wind facilities included in base rates or interim rates;
- the 2024 carryover balance.

Table 2 summarizes the various components of the 2024 RES Rider revenue requirement.

Table 2: RES Rider Revenue Requirements¹⁰

	2025
2025 Project Revenue Requirement, net of PTCs	\$78,096,433
Carryover Balance	(\$13,496,505)
Revenue Requirement Total	\$64,599,928
2025 Forecasted RES Revenue Collections	\$64,608,750
Balance	(\$8,822)

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

b. b. Allocations to Other Jurisdictions

The proposed revenue requirements are only those related to the State of Minnesota's retail share of eligible costs, using the most current data available and the following allocators:

¹⁰ Petition, at 10.

- *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 NSPW.¹¹ 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. We used the energy allocator to allocate the project PTCs to each jurisdiction. We used both the energy and the demand allocators to allocate the projects to each jurisdiction.

To properly align cost causation with cost recovery, Xcel has allocated costs incurred in a given year with that same year's allocators, which is consistent with the allocation methodology approved in past RES Rider dockets.

Xcel calculated the 2025 revenue requirements using forecasted allocators and proposed to true-up the tracker account to the actual allocators when they become available. Actual true-up allocators will be consistent with those used to allocate Minnesota jurisdiction variable costs (including PTCs) in Xcel's annual jurisdictional reports filed on May 1 each year.¹¹

c. Production Tax Credit (PTC) Forecast

To ensure customers only pay for renewable energy projects' actual costs, Xcel true-ups for Production Tax Credits (PTCs). Under a 2015 Commission Order, Xcel is allowed to compare the forecasted PTC amounts used to set base rates with the actual PTCs earned from wind energy production. The difference is credited or charged to customers through the RES Rider. For this filing, Xcel included a \$1.29 million PTC true-up adjustment for the period from July 2023 through June 2024. Numerous in-service wind facilities, including Blazing Star I and II, Freeborn, Border Winds, and Nobles Repower, are currently earning PTCs. Xcel has also aligned its 2025 and 2026 PTC forecasts with its current rate case,¹² so no additional adjustment is needed at this time. However, actual 2025 PTCs will be reviewed and reconciled in the next RES Rider

¹¹ Petition, at 11.

¹² Docket No. E-002/GR-24-320.

filing to ensure accurate customer billing.

Xcel submitted tax documentation for 2023 PTCs in Attachment 12 and included a comparison of assumed versus actual PTCs in Attachment 13. These documents allow the Commission to assess the real customer benefits from renewable energy tax credits. Because wind generation varies year to year due to weather and grid conditions, actual PTCs often differ from those forecasted in project approval filings. In response to the Inflation Reduction Act (IRA), Xcel is required to maximize federal tax benefits and reflect them in system planning and cost recovery filings. Xcel noted that the IRA, along with the Infrastructure Investment and Jobs Act (IIJA), provides multiple incentives for renewable energy and energy storage and, to reduce costs and increase value for customers, the Company is actively working to take advantage of these opportunities wherever eligible.

d. Construction Work in Progress (CWIP) and Allowance for Funds Used During Construction (AFUDC)

In lieu of AFUDC, Xcel's calculations include recovery of a current return on the CWIP balance. The revenue requirement model includes a current return on capital expenditures beginning with the cumulative CWIP balance for the Courtenay project per an eligibility date of September 1, 2015 and for the self-build 1,550 Wind Portfolio per an eligibility date of September 1, 2017.

The Company assumed an eligibility date of January 1, 2019 for the Dakota Range I and II project; January 1, 2020 for the Jeffers Wind and Community Wind North projects; January 1, 2021 for the Mower Wind, Border Winds Repower, Grand Meadows Repower, Nobles Repower, Pleasant Valley Repower, Northern Wind and Rock Aetna Repower projects; January 1, 2022 for Sherco Solar 1 and 2; and January 1, 2023 for Sherco Solar 3 and the Sherco Form Energy Long-Duration Battery Storage project. The beginning CWIP balance includes AFUDC incurred prior to the eligibility date, after which the Minnesota jurisdictional portion of costs does not include AFUDC, and a current return is calculated on the CWIP balance.

Xcel's NSP jurisdictions differ in how they treat Construction Work in Progress (CWIP) for ratemaking purposes. To allocate costs fairly across all jurisdictions, Xcel calculates Allowance for Funds Used During Construction (AFUDC) at the total company level. However, starting from each project's eligibility date, Xcel subtracts the AFUDC amount related to Minnesota retail from the total to ensure costs are assigned in line with each jurisdiction's specific ratemaking rules.

e. Accumulated Deferred Income Tax (ADIT) Proration

The 2024 revenue requirements is calculated using the alternative ADIT treatment discussed in Xcel's May 25, 2018 Supplemental Reply Comments in Docket No. E-002/M-17-818, which conforms to their understanding of the proration formula in IRS regulation section 1.167(1)-1(h)(6). Under this treatment, Xcel has:

1. 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.
2. Then applied a mid-month convention for the proration factors in each month.
3. 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 reduce the proration impact to the ratepayers in these rider mechanisms significantly.

This treatment minimizes customer impact while still maintaining the significant deferred tax benefits provided to customers. This treatment requires the ADIT prorate to be embedded in the rate base calculation rather than separated as a line item.³⁰ Xcel contended that, compared to the magnitude of the rider, their proposed ADIT treatment on customers is minimal: the ADIT proration's 2025 RES Rider revenue requirement impact is \$4,737; whereas, the forecasted revenue requirement is \$64,599,928.¹³ If the Commission approves implementation of the proposed rates on January 1, 2025, either in full or provisionally, IRS rules require ADIT to be prorated for the entire forecasted period.

f. Rate of Return and Return on Equity

Rate of return components, including the return on equity (ROE), approved in Xcel's most recent rate case¹⁴ have been used to determine the return on CWIP and rate base beginning January 1, 2022, the rate case test year. Components have been updated for each year of the multi-year rate plan (MYRP) as approved.¹⁵

g. Depreciation

In accordance with Commission guidance, Xcel has applied updated depreciation lives to its renewable energy projects. For all 2025 and beyond wind projects included in the rider, Xcel is using depreciable lives approved in the Commission's January 9, 2024 Order in Docket No. E,G002/D-22-299. This includes a standard 35-year depreciable life for wind facilities. For solar projects, Xcel is using a 35-year life as well, based on vendor recommendations and engineering analysis. The Sherco Battery project, being a newer and different type of technology, is assigned a 10-year depreciable life. Any future changes in these lives ordered by the Commission will be reflected in subsequent RES Rider filings. Specifically, Xcel has updated the depreciation life for the Northern and Rock Aetna Wind projects to 35 years, resulting in a \$3.7 million credit to the 2024 revenue requirement, helping to reduce overall costs for customers.

¹³ Petition, at 16.

¹⁴ Docket No. E-002/M-21-630.

¹⁵ Petition, at 16.

h. Internal Labor Removal

Xcel has excluded internal labor costs from the renewable energy projects included in the filing.

i. Additional Information

Consistent with prior guidance,¹⁶ Xcel confirmed that only incremental costs—those not already recovered through base rates—are included in the 2025 RES Rider.

6. RES Rider True-up Report

Like other rate adjustment mechanisms, the RES Rider uses a tracker account as the accounting mechanism. As revenues are collected, the Company tracks the recovery amount and compares it with actual costs including a return on investments, depreciation expense, federal and state income taxes, production taxes, O&M expenses, and royalty payments.¹⁷ The over or under recovery balance from the prior year is used in the calculation of the RES Adjustment Factor. 2023 actual revenue requirements and revenues are shown the Petition's Attachments 2 and 3.

7. Calculation of the RES Rider Rate Factor

Beginning January 1, 2025, the 2025 RES Rider rate factor will be used to collect the 2025 revenue requirements over twelve months. Implementation will result in an average residential customer's monthly bill impact of \$2.09 which is a \$1.24 decrease compared to the current rate.¹⁸

8. Provisional Rate Implementation Proposal

If it is not otherwise possible for the full RES Petition to be approved, Xcel proposed to provisionally implement the 2025 RES Rider rates on January 1, 2025, it will make the changes predictable and clearer to customers and reduce future imbalance in the RES Rider tracker.¹⁹

9. Rate Case Treatment

Xcel Energy proposes to transition three projects—Grand Meadow Wind Repower, Nobles Wind Repower, and Northern Wind—from the RES Rider into base rates, as they are expected

¹⁶ See Commission's March 20, 2008 Order in Docket No. E-002/M-07-872.

¹⁷ *Id.*

¹⁸ Petition, at 18.

¹⁹ As previously mentioned, provisional implementation was approved on December 17, 2024.

to be in service by December 31, 2024. However, because final rates from the current rate case won't be implemented immediately, Xcel proposes to continue recovering these project costs through the RES Rider until the new rates take effect. This approach ensures accurate and uninterrupted cost recovery, avoids any overlapping charges, and results in a lower interim rate request. Xcel also plans to continue using the RES Rider as a true-up mechanism for Production Tax Credits (PTCs), even after projects move into base rates. This method is consistent with past practice and is intended to maintain fairness and billing accuracy during the transition from rider recovery to base rate recovery

10. Proposed Tariff Revisions and Customer Notice

a. Revised Tariff Sheet

Xcel's Attachment 14 redline and clean revisions to the RES Rider tariff. 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.²⁰

To remove outdated language about Residential Controlled Air Conditioning and Water Heater discounts, Xcel is also proposing a change to the RES Rider tariff. The current tariff incorrectly refers to a discount applied to "Energy and Fuel Cost Charges," even though the discount is now a flat credit. Xcel has included updated redline and clean versions of the tariff to reflect this correction.

b. Customer Notification

Xcel proposed to provide the following message to customers as a notice on their January 2025 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 2.41% of the basic service charge, energy charge, and demand charge on your bill.

The Company noted that it will work with the Department of Commerce and the Consumer Affairs Office regarding the proposed customer notice.

²⁰ Xcel filed the revised tariff on December 18, 2024.

IV. Department of Commerce – Comments

The Department's review of Xcel Petition included a thorough review of Xcel's cost breakdown, as summarized in Table 3. Based on its evaluation, the Department concluded that the filing complies with applicable statutes and Commission orders and recommended that the Commission approve Xcel's Petition.

Table 3: Xcel's Proposed RES Rider Revenue Requirements and Tracker Summary (in \$)²¹

Line	Item	2023	2024	2025
		Actual	Mixed	Forecast
1	Projects moved to base rates beg. 2024*	59,946,214	-	-
2	Northern Wind	9,181,657	6,960,250	7,633,561
3	Nobles Wind Re-Power	2,573,639	502,694	714,611
4	Grand Meadow Wind Re-Power	3,345,998	1,976,737	1,886,127
5	Borders Wind Re-Power	295,871	684,472	6,798,763
6	Pleasant Valley Wind Re-Power	450,719	958,416	8,453,072
7	Sherco Solar 1&2	7,466,225	32,172,914	37,254,555
8	Sherco Solar 3	261,528	2,212,489	13,986,477
9	Sherco Battery	7,219	153,118	1,369,266
10 (sum 1:9)	Project Subtotal	83,529,070	45,621,090	78,096,432
11	PTC True-Up for Base-Rate Projects	(514,040)	(30,134,627)	-
12	Rate Case Adj. Reversal (Interim Period)	1,288,000	-	-
13 (sum 10:12)	Gross Revenue Requirement	84,303,030	15,486,463	78,096,432
14	Carryover (Prior Year-End Balance)	45,753,015	(3,260,043)	(13,496,504)
15 (sum 13:14)	Net Revenue Requirement	130,056,045	12,226,420	64,599,928
16	Revenue Collections	133,316,088	25,722,924	64,608,750
17 (15 less 16)	Year-End Balance	(3,260,043)	(13,496,504)	(8,822)

*The projects moved to base rates beginning in 2024 are the following wind projects: Blazing Star I; Blazing Star II, Courtenay Wind, Crowned Ridge, Foxtail, Freeborn, Lake Benton, Dakota Range, Jeffers WF, Community Wind North, Mower

1. Enabling Statute

Pursuant to Minnesota Statutes §216B.1645, subd. 2a, Cost Recovery for Utility's Renewable Facilities, the Commission approved Xcel's RES Rider in its current format. The statute states, in part, that the Commission may approve, or approve as modified, a rate schedule that:

- allows a utility to recover directly from customers on a timely basis the costs of qualifying renewable energy projects,
- provides a current return on construction work in progress,
- allow recovery of other expenses incurred that are directly related to a renewable energy project,
- allocates recoverable costs appropriately between wholesale and retail customers, and
- terminates recovery when costs have been fully recovered or otherwise

²¹ Department Comments, at 2.

reflected in a utility's rates.

2. RES Rider Eligibility

a. New Projects

The 2025 revenue requirement does not propose recovery of any new projects.

b. Projects Previously Approved for RES Rider Recovery

Consistent with Table 1 (above), the Department's Table 6 reproduced the listed projects that were moved from the RES Rider to base rates effective January 1, 2025 and those that remain in the RES Rider.

3. Project Cost Caps

a. Sherco Solar 1 and 2

Xcel's \$685.87 million forecast is \$4.23 million below the cost cap.²²

b. Sherco Solar 3

Xcel's Petition stated that delays in the construction and in-service schedule of Sherco Solar 3 have caused forecasted costs to exceed its (trade secret) cap. The overage is primarily attributed to increased financing costs (AFUDC) resulting from the delay. However, Xcel clarified that this overrun does not affect the 2025 revenue requirements, which remain below the cap. Xcel proposed to monitor the situation and defer discussion of the cost overage to a future RES Rider filing. The Department agreed with this approach and will further assess the prudence of the overage and its impact during the 2026 RES Rider review.²³

c. Sherco Battery

The Sherco Battery project is expected to be in service by late 2025 and, due to substantial federal grant support, is forecasted to remain well below its (trade secret) cost cap. Xcel expects to receive Investment Tax Credits (ITC) as part of this project and proposes to return the project's ITC to customers over 10 years to avoid rate volatility. The Department found this approach to be reasonable and beneficial to ratepayers and recommended approval.²⁴

²² Department Comments, at 6.

²³ *Id.*

²⁴ *Id.* at 8.

d. Wind Repower Portfolio

Xcel Energy's Wind Repower Portfolio includes multiple repowered wind projects, such as Grand Meadow, Nobles, Pleasant Valley, Northern Wind, and Rock Aetna, several of which are still being recovered through the RES Rider. The Department reviewed the costs of the portfolio and confirmed that, while Northern Wind may exceed its individual (trade secret) cost cap, the total portfolio remains within the aggregate cap approved by the Commission.²⁵ The Department supports Xcel's use of a combined cost cap across the repower projects, finds the current cost recovery reasonable, and recommended continued monitoring through future filings.

e. North Dakota Investment Tax Credits

As required by the Commission's April 11, 2017 Order in Docket No. E002/M-15-805, Xcel includes North Dakota Investment Tax Credits (NDITCs) for the Courtenay Wind Project in its revenue calculations. For 2025, the NDITC amount remains at \$0, with no credit applied.²⁶

f. Renewable Energy Credit Sales

The Department observed that Xcel did not sell any Minnesota RECS in 2023 or 2024.²⁷

g. Production Tax Credits (PTC)

1. PTC Base True-up

As ordered in its 2023 RES Rider docket, Xcel proposed PTC true-ups for projects recovered in base rates, which would result in customer credits of \$514,040 for 2023 and \$30.13 million for 2024. For projects still recovered through the RES Rider, Xcel includes PTCs directly in each project's revenue requirement and adjusts them to match actual amounts received. The Department has reviewed these proposed true-ups and did not object to Xcel's proposed true-up.²⁸

²⁵ Department Comments, at 9.

²⁶ Department Comments, at 9.

²⁷ *Id.*

²⁸ *Id.*

2. PTC Interim Rate Adjustment

As approved in its most recent rate case,²⁹ Xcel proposed to recover a \$1,288,000 PTC adjustment. The Department confirmed that this recovery was previously approved.

3. PTC Transfers

On September 29, 2023, Xcel completed its first PTC sale at a discount. While the sale reduces the total PTC credit passed to customers in the RES Rider, Xcel explained that this reduction will be offset by credits returned through its Deferred Tax Asset (DTA) true-up process, which is handled in other dockets. Although the 2024 revenue forecast doesn't include the impact of PTC sales, Xcel plans to true that up in its next RES Rider filing.

The Department reviewed this plan and agreed with Xcel's approach. It noted that while selling PTCs at a discount lowers the immediate PTC benefit in the rider, the long-term gain from reducing the DTA will bring greater overall value to customers. The Department supports using the annual DTA compliance process to ensure customers receive the full benefit of these tax credit transactions.

4. PTC Planning Models vs. Actuals

The Department noted that Xcel earned \$83.67 million less in Production Tax Credits (PTCs) from 2020 to 2023 than it originally expected. This is a concern because the Commission expects Xcel to deliver the full benefits it promised to customers when the projects were approved. If those benefits don't happen, Xcel may be held responsible. Xcel explained that the projects still provide value in other ways, like reducing long-term costs and helping the environment. The Department agreed that PTCs are only one part of the overall benefit but also recommended that Xcel improve its energy production estimates so future projects are based on more accurate and cost-effective planning.

4. Revenue Requirement Calculation

Xcel Energy is proposing to recover \$64.6 million in net revenue requirements through its 2025 RES Rider, representing a 207% increase over the 2024 amount. This jump is largely driven by increased costs tied to the Border Winds and Pleasant Valley Wind Repower projects, as well as ongoing investment in Sherco Solar 3. Unlike 2024, which included a large PTC true-up that lowered the revenue requirement, no such credit is included in 2025. Despite the year-over-year increase, the 2025 request is still lower than the 2022 and 2023 totals, when more projects were still being recovered through the RES Rider. Xcel also applied a \$13.5 million carryover credit from 2024, helping offset the 2025 amount, and estimates only a slight over-collection of \$8,822, which will roll into 2026. After reviewing the filing, the Department found no issues

²⁹ Docket No. E-002/GR-21-630.

with Xcel's revenue requirement methodology and did not object to the proposed calculations.³⁰

5. Jurisdictional Allocation

The Company used the same jurisdiction allocation methodology used on prior RES Rider filings. Xcel used the most current data available to allocate Minnesota's share of the eligible costs. Allocators included the Interchange Agreement Allocator and Jurisdictional Allocator, both using forecasted allocators for 2025. The Department cited that the actual allocator used to true-up the tracker will be consistent with the Company's annual jurisdictional report, filed on May 1 of each year.³¹ The Department confirmed Xcel's jurisdictional allocators are reasonable.

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

Table 4: Project Eligibility Dates

Eligibility Date	Projects
September 1, 2015	Courtenay
September 1, 2017	Self-build 1,550 Wind Portfolio
January 1, 2019	Dakota Range I & II
January 1, 2020	Jeffers Wind, Community Wind North
January 1, 2021	Mower Wind, Border Winds Repower, Grand Meadows Repower, Nobles Repower, Pleasant Valley Repower, Northern Wind and Rock Aetna Repower
January 1, 2022	Sherco Solar 1 & 2
January 1, 2023	Sherco Solar 3, Sherco Battery project

7. Accumulated Deferred Income Tax Proration

following IRS rules that require spreading those savings evenly throughout the year, Xcel used the same method as last year to calculate deferred tax savings. Because Xcel plans to start the

³⁰ Department Comments, at 13.

³¹ Department Comments, at 13.

new RES Rider rates on January 1, 2025, the IRS requires that the tax benefit be prorated across the full year. Using this method, Xcel calculated that the impact on the 2025 revenue requirement is a small amount—just \$4,737 after applying tax credits.

8. Rate of Return and Return on Equity

Xcel used a return on equity of 9.25% as set by the Commission in the July 17, 2023.³² However, Xcel used an overall rate of return of 6.91%, which exceeds the 6.90% rate of return indicated in Table 10 of the Commission's Order. The 0.01% difference between the 2023 rate of return 6.91% used by Xcel and the 6.90% rate of return in Table 10 is a result of rounding used in establishing the 2023 capital structure. Consequently, the Department concluded that use of an overall rate of return of 6.91% is reasonable, given that the underlying weighted average cost of capital (WACC) by type of capital matches those in the Commission's Order.

9. Depreciation

Xcel Energy is using the depreciation timelines approved by the Commission for its renewable energy projects in the Annual Review of Remaining Lives (ARL) Docket.³³ For wind projects still in the RES Rider starting in 2025, Xcel has adopted the Commission-approved 35-year depreciable life, including updates to Northern and Rock Aetna Wind, which were changed from 25 to 35 years, resulting in a \$3.7 million credit to the 2024 revenue requirement. Solar projects are also assigned a 35-year life, while the Sherco Battery project uses a 10-year life.

10. Internal Labor Removal

Xcel has excluded internal labor costs from the renewable energy projects included in this filing.

11. Incremental Costs

The Commission allows the Company to recover, through the RES Rider, only incremental costs, not recovered elsewhere. The Department reviewed Xcel's rider revenue requirements and agreed with Xcel that it is not double recovering costs of renewable projects.³⁴

12. Factor Calculation

The Company'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

³² Docket No. E-002/GR-21-630.

³³ Docket No. E,G-002/D-22-299.

³⁴ Department Comments, at 16.

over the base revenues without fuel, riders, and taxes. The Company applied the percentage to existing base revenues. The Company proposes the same method in this RES Rider Petition. Department concluded this methodology continues to be reasonable.

13. Recommendations

The Department recommends the Commission:

- Approve the Company's RES Rider revenue requirements for 2025.
- Approve the Company's proposal to establish a regulatory liability for flowback of investment tax credits over a period of 10 years.
- Require the Company to submit a compliance filing 10 days after the date of the Commission's Order showing an updated RES rider tracker.

V. Xcel Energy – Reply Comments

In its filing, Xcel noted that it had already included all required tracker adjustments and other elements mandated by the Commission's February 6, 2025 Order (Docket No. E002/M-23-454) in its initial filing. Since the Department did not propose any further changes to the tracker, Xcel stated that a separate compliance filing to update the tracker is not necessary at this time. After discussion, the Department agreed, and Xcel plans to provide any updates in its next annual RES Rider filing in fall 2025.

VI. Staff Comments

Staff notes that the Department's comments did not state its position regarding Xcel's ADIT proration and Xcel's revised depreciable lives. Staff suspects that the Department does not have any concerns with either issue; however, at the agenda meeting, the Commission may want to get confirmation from the Department.

Also, Xcel's reply comments state that, after consulting with the Department, they now both agree that Xcel should provide tracker updates in its next annual filing. While Staff has no reason to doubt Xcel's assertion, at the agenda meeting, the Commission may want to get confirmation from the Department.

Finally, Xcel's Petition requested to revise to remove outdated tariff language regarding Residential Controlled Air Conditioning and Water Heater discounts. The Department was silent on this issue. Staff suspects that the Department does not have any concerns this issue; however, at the agenda meeting, the Commission may want to get confirmation from the



Department.

VII. Decision Options

Revenue Requirements and Adjustment Factor

1. Approve Xcel's proposed 2025 Renewable Energy Standard (RES) Rider Revenue Requirements and RES Adjustment Factor. (Xcel, Department)

Or

2. Do not approve Xcel's proposed 2025 Renewable Energy Standard (RES) Rider Revenue Requirements and RES Adjustment Factor.

Sherco Battery Investment Tax Credit

3. Approve Xcel's proposal to establish a 10-year regulatory liability for flowback of to the Sherco Battery Project's Investment Tax Credits. (Xcel, Department)

Compliance Filing

4. Require Xcel to submit a compliance filing 10 days after the Order showing an updated RES rider tracker. (Department)

Or

5. Allow Xcel to wait until its next annual RES Rider filing in fall 2025 to provide any further tracker updates. (Xcel, per Xcel Department verbally agreed)

Tariff Sheet Revision

6. Approve Xcel's request to revise to remove outdated tariff language regarding Residential Controlled Air Conditioning and Water Heater discounts. (Xcel)