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Xcel Energy		Information Request No.	3
Docket No.:	E002/M-22-489		
Response To:	Minnesota Public Utilities Commission		
Requestor:	Jorge Alonso		
Date Received:	January 31, 2025		

Question:
Please share any lessons learned from the Elk River Technologies transaction that will protect ratepayers and maximize sales prices of any future land sales.

Response:
When the transaction was executed and approved by the Minnesota Public Utilities Commission (Commission), neither Xcel Energy nor others could have reasonably predicted the market volatility responsible for the sizeable increase in demand for data-center-suitable land. As a recap, the relevant dates of the Elk River Technologies sale are as follows:

(1) July 22, 2022: Xcel Energy and Elk River Technologies executed the original option agreement, granting Elk River Technologies the exclusive option to purchase the property;

(2) September 1, 2022: Xcel Energy filed a petition seeking Commission approval of the transaction;

(3) April 6, 2023: The Commission approved the land sale at Sherco, according to the terms of the option agreement;

(4) April 24, 2024: Xcel Energy completed the sale of the property to Elk River Technologies; and

(5) On or around November 1, 2024: Elk River Technologies resold the property.

Between the time of executing the option agreement in July 2022 and the eventual resale of the property by Elk River Technologies in November 2024, the market for data centers changed dramatically, leading to increased demand for capacity and viable sites that could not have reasonably been predicted at the time the Company executed

its transaction with Elk River Technologies.[1] Though the Company elected to provide the proceeds from the transaction to our customers, the Company emphasizes, however, that the most significant benefit to our customers from this transaction is the potential for increased load and revenue that can decrease the Company's need for future rate increases. As part of our strategic evolution in this area, we are now seeing growing opportunities to increase contributions to the fixed costs of operating our business, thus benefiting all customers based upon the terms of the electric service agreements we are currently working to negotiate with incoming data center customers.

The demand for data centers spiked, in part, due to sudden growth of artificial intelligence (AI) and the corresponding dramatic increase in the need for data storage and processing capabilities. Since Xcel Energy entered into the option agreement in July 2022, AI platforms like ChatGPT—which launched after we executed the option agreement (November 2022)—have become a driving force for the rapid need for data centers. AI platforms like ChatGPT are energy-intensive, with a single query requiring approximately 10 times as much energy as a traditional Google search. This has experts projecting a 2.4 percent rise in electricity demand from 2022 to 2030.[2] While the potential for data center growth is currently a primary driver of anticipated utility load growth, it is not reflective of the market that existed even as recently as 2022 – when the Company made this deal. As an example, Google made a strategic and financial decision not to locate in Becker only a few months prior to the Company executing the initial agreement with Elk River Technologies. At that time, the appraisal price of the potential Google land transaction was lower than the final sale price to Elk River Technologies.

While this unique market event was unforeseeable, Xcel Energy continues to review its practices to incorporate these learnings into future strategies. Potential changes the Company is considering include: (1) contractually required profit sharing, requiring a buyer to share a percentage of profits if land is resold within a specified period of time; (2) limitation or provisions surrounding option contracts, preventing buyers from renewing options after a certain period of time or requiring reappraisals and pricing updates with each renewal; and/or (3) competitive bidding processes (though competitive bidding does not necessarily protect against market volatility and could

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[1] Lauren Leffer, *The AI Boom Could Use a Shocking Amount of Electricity*, SCIENTIFIC AMERICAN, (Oct. 13, 2023), https://www.scientificamerican.com/article/the-ai-boom-could-use-a-shocking-amount-of-electricity/ (noting that projected trends could lead to production and shipping of 1.5 million AI server units by 2027, which, if running, would consume at least 85.4 terawatt-hours of electricity annually).

[2] Frank Holmes, *Data Centers Are Driving an Electricity Demand Surge from AI Platforms Like ChatGPT*, FORBES (Jan. 3, 2024), https://www.forbes.com/sites/greatspeculations/2024/06/03/data-centers-are-driving-an-electricity-demand-surge-from-ai-platforms-like-chatgpt/.

lead to sales in which the future use of the land is less beneficial to our customers). While these strategies and contractual provisions could impact the number of bidders and/or pricing for a parcel of land, we think the tradeoff associated with these tools may make sense given the current state of market volatility.

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