
STAFF MEMORANDUM

TO: COMMISSIONERS AND ADVISORS

FROM: BRITTANY MEHLHAFF, ERIC PAULSON, AND JENNIE FUERST

RE: EL25-031 - IN THE MATTER OF THE PETITION OF NORTHERN STATES POWER COMPANY DBA XCEL ENERGY FOR APPROVAL OF ITS 2026 TRANSMISSION COST RECOVERY ELIGIBILITY AND RATE ADJUSTMENT

DATE: DECEMBER 10, 2025

BACKGROUND

On August 29, 2025, the South Dakota Public Utilities Commission (Commission) received a petition from Northern States Power Company dba Xcel Energy (Xcel) for approval of a revised Transmission Cost Recovery (TCR) rider adjustment factor for 2026. The filing also requested approval of the 2025 tracker report for approved transmission project investments, expenditures, and revenues received.

South Dakota Codified Laws §§ 49-34A-25.1 through 25.4 authorize the Commission to approve a tariff mechanism for the automatic annual adjustment of charges for the jurisdictional costs of new or modified transmission facilities with a design capacity of thirty-four and one-half kilovolts or more and which are more than five miles in length.

The Commission first approved the establishment of the TCR rider in Docket EL07-007. In Docket EL12-035, the Commission approved the Settlement Stipulation supporting the “refined split method” approach for allocating MISO approved cost-shared projects with company investment. In subsequent years, the Commission approved recovery of additional projects and expenses. Completed projects have been rolled into base rates during the Company’s general rate case filings.

Most recently, in Docket EL24-030, the Commission approved TCR recovery of the 2025 revenue requirement associated with 25 previously approved transmission projects, six new transmission projects, and MISO Schedule 26 and 26A expenses.

Xcel filed a rate case, Docket EL25-024, on June 30, 2025. In that case, Xcel proposes to continue using the TCR rider for recovery of costs for one capital project with phase in-servicing – Eau Claire 345 kV – as well as ongoing and future transmission projects and MISO RECB Schedule 26 and 26A net revenues. Xcel’s filing in this TCR docket reflects the Company’s proposal to move projects that are currently in the rider that were placed in service as of December 31, 2024, into base rates as of January 1, 2026. Xcel’s TCR petition seeks recovery of 23 projects¹ with in-service dates beyond December 31, 2024, including

¹ Note: The Company’s petition stating there are four projects with in-service portions and 30 projects that have in-service dates beyond Dec. 31, 2024, was in error.

five projects that are partially in-service by the end of December 2024², and the MISO RECB revenues and expenses. Included in the 23 projects are two new projects Xcel proposes recovery of beginning in 2026. The proposed 2026 revenue requirement results in a rate of \$0.001422 per kWh, calculated based on an effective date of January 1, 2026. This represents an increase of \$0.000981 per kWh from the existing rate.

As discussed further below under Staff Analysis, Staff and Xcel agreed to remove the costs associated with the Minnesota Energy Connection project at this time in order to allow Staff additional time to review the project in conjunction with the Integrated Resource Planning review with the pending rate case. Xcel filed an update on December 5, 2025, to reflect this removal. This decreases the 2026 revenue requirement by approximately \$824,000.

The revised 2026 revenue requirement of \$2,475,901 results in a rate of \$0.001067 per kWh to be effective January 1, 2026.

STAFF ANALYSIS

Analysis of Project Updates

On pages 3 through 5 of Attachment 1, Xcel discusses the previously approved projects that have had changes to their scope and any significant variances in capital cost forecast compared to the forecasts in EL24-030.

Analysis of New Projects

Minnesota Energy Connection

The Minnesota Energy Connection project is a double circuit 345 kV transmission line that runs between the current Sherco coal plant site and Lyon County, Minnesota. As noted in the Petition, the new transmission infrastructure is designed to enable more than 2,000 megawatts of energy from renewable resources and combustion turbines. The new transmission line will re-use the existing grid connections in Becker.

Staff would like more time to analyze this project in conjunction with the IRP analysis being done within the current pending Xcel rate case, EL25-024. Xcel has agreed to remove the 2026 revenue requirements associated with this project while Staff completes its analysis.

Line 0986/0987 Major Line Rebuild Double Circuit

The Line 0986/0987 Major Line Rebuild Double Circuit project satisfies statute requirements as a rebuild of 30.6 miles of existing 345 kV transmission line and wood K-Frame structures. The existing line was

² For the 5 projects that are partially in-service by Dec. 31, 2024, Xcel proposes to move the portions that are in-service into base rates in the pending rate case. The portions that are not in-service by that date will remain in the TCR Rider.

originally built in the 1960's and runs between Xcel's Prairie Island substation and Red Rock substation. This line has not been previously rebuilt and will be replaced with new steel structures that are also designed for future capacity increase to a larger conductor.

2025 TRACKER REPORT

The rate approved in Docket EL24-030 was based on the balance in the tracker account and the 2025 estimated revenue requirements. In this docket, Staff reviewed the revised 2025 revenue requirement to determine if the costs were prudent and at the lowest reasonable cost to ratepayers. Xcel states in its petition it analyzes up to a dozen project alternatives for a given project, uses a competitive bidding process, and has developed a standard design for collector stations to minimize design and engineering costs.

Staff also reviewed the Company's calculation of the under/over collection of costs incorporated in the new TCR rates, comparing actual recoveries to actual costs. Attachment 6 summarizes the tracker activity by month for 2025. Individual project detail for the projects is found on Attachment 12.

2026 TCR REVENUE REQUIREMENT

The revised estimated 2026 revenue requirement, excluding the Minnesota Energy Connection project, of \$2,475,901, subject to later true-up to actual costs and recoveries, is based on the 2025 under-collection in the tracker account and the estimated 2026 revenue requirement associated with the 22 transmission projects and MISO Schedule 26 and 26A revenue and expenses. This represents an increase from the 2025 revenue requirement amount of approximately \$1.5 million.

The 2026 revenue requirement continues to apply the other provisions agreed upon in the EL13-006 settlement, including the jurisdictional demand allocators, carrying charge, and rate design. Additionally, the Company will continue to employ the same rate of return method with a true up of the 2026 rider balance calculations to reflect the cost of debt and capital structure at December 31, 2025 levels and the return on equity approved in the Company's most recent rate case.

2026 TCR RATE

The revised TCR rate is designed to be implemented effective January 1, 2026, and is calculated based on forecasted sales from January 2026 through December 2026. The TCR rate, effective January 1, 2026, is \$0.001067 per kWh and represents an increase of \$0.000626 per kWh from the existing rate.

Reasonableness of Overall Earnings from Regulated Rates

Consistent with the terms of the EL13-006 settlement agreement, the Company will continue to file, by June 1 of each year, an annual report with the Commission detailing its South Dakota jurisdictional earnings for the preceding calendar year. Staff believes the report is necessary to monitor the Company's earnings and the potential effect of adding the TCR rider to its South Dakota tariff.

RECOMMENDATION

Staff's recommendation is based on its analysis of Xcel's filing, discovery information, relevant statutes, and previous Commission orders. Staff's review consisted of, but was not limited to, the 2025 tracker report, the forecasted 2026 revenue requirement, rate calculation, and the appropriate inclusion of new proposed projects.

Staff recommends the Commission approve the updated 2026 revenue requirements, excluding the Minnesota Energy Connection project, and revised TCR rate of \$0.001067 per kWh, with an effective date of January 1, 2026. And that the Minnesota Energy Connection project will be re-evaluated at the conclusion of the current pending Xcel rate case, EL25-024. If the Commission ultimately approves recovery of the Minnesota Energy Connection project, Staff agrees Xcel may include the project in the TCR beginning with 2026 revenue requirements.