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**STAFF MEMORANDUM REGARDING SUPPLEMENTAL FILING**

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**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:** May 27, 2026

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**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.

Xcel's filing in this TCR docket reflects the Company's proposal in Docket EL25-024 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 projects<sup>1</sup> with in-service dates beyond December 31, 2024, including five projects that are partially in-service by the end of December 2024<sup>2</sup>, 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.

Staff and Xcel agreed to temporarily remove the costs associated with the Minnesota Energy Connection project in order to allow Staff additional time to review the project in conjunction with the Integrated Resource Planning review in the rate case.<sup>3</sup> Xcel filed an update on December 5, 2025, to reflect this

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<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> Refer to 12/10/25 Staff Memorandum

removal. As noted in Staff's December 10, 2025 Memorandum, the Minnesota Energy Connection project would be re-evaluated at the conclusion of the rate case.

On December 17, 2025, the Commission issued an Order Approving 2026 Transmission Cost Recovery Eligibility and Rate Adjustment. The rates approved were effective January 1, 2026.

On May 13, 2026, the Commission issued an Order Granting Joint Motion for Approval of Settlement Stipulation; Order Approving Refund Plan; Order Approving Tariff Revisions in Docket EL25-024. The Settlement resolved all issues regarding resource additions and retirements. With Staff's resource planning review complete, Xcel provided an update in the TCR docket to include the Minnesota Energy Connection project beginning with 2026 revenue requirement and calculates a new rate to be effective July 1, 2026. The Company also notes that it is not opposed to waiting to update the TCR rate factor to include the project in its next annual TCR filing.

### **MINNESOTA ENERGY CONNECTION PROJECT**

The Minnesota Energy Connection project includes a double circuit 345 kV transmission line that runs between the current Sherco coal plant site and Lyon County, Minnesota, totaling approximately 180 miles, and associated facilities, including modifications to existing substations and construction of a terminal substation (Garvin Substation), an intermediate substation, and a voltage support substation.<sup>4</sup> 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. Xcel intends to connect the transmission line to a new 420 MW natural gas plant in Lyon County, MN.<sup>5</sup> The Minnesota Energy Connection project will re-use approximately 2,000 MW of transmission interconnection rights at the Sherco substation near Becker, MN.

Xcel began construction of the transmission line and Garvin Substation in May 2026. Substation construction is planned to commence at Sunflower Substation, Sherco Solar West Substation and Sherburne County Substation in the third quarter of 2026. 2027 construction activities will include continued transmission line construction focused on the segment between the Sunflower Substation and the Sherco Solar West Substation. Garvin and Sunflower substation construction will continue. Transmission line construction and substation construction activities are planned to be completed in June 2028 with the project being ready to energize in August 2028. Additional substation construction will continue in 2028-2031.<sup>6</sup> The Company provided<sup>7</sup> the following map showing when various parts of the project are anticipated to go in-service.

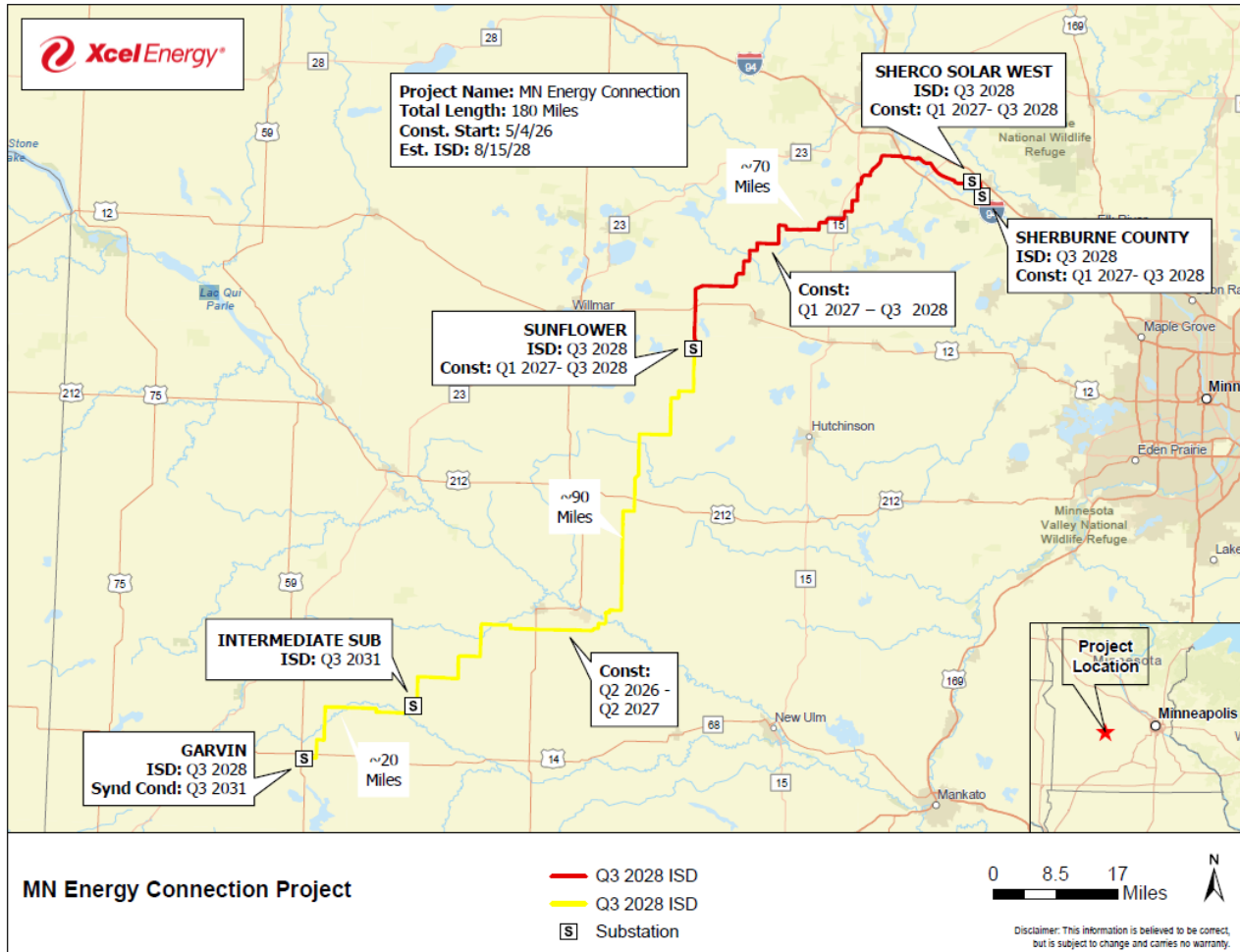
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<sup>4</sup> MN PUC Docket E-002/TL-22-132 (Route Permit)

<sup>5</sup> The Company has not yet requested cost recovery for this resource.

<sup>6</sup> Xcel Response to Staff DR 3-2.

<sup>7</sup> Xcel Response to Staff DR 3-1.



Staff’s consultant, Colton Kennedy (CMK Energy Group), reviewed the Company’s resource planning decisions in Docket EL25-024. In Xcel’s 2020-2034 Upper Midwest Resource Plan Xcel proposed an Alternate Plan which included constructing a double circuit 345 kV gen-tie line to connect solar, wind, and firm dispatchable resources to the Sherco interconnection<sup>8</sup>. This gen-tie line was included in the Company’s final 2020-2034 resource plan and is part of the resource mix reviewed by Staff in the rate case.

While Staff found that the accelerated retirement of certain coal units (Sherco 1 and 2) was not prudent, the Settlement approved in Docket EL25-024 included a reduction to the revenue requirement<sup>9</sup> to address this decision.<sup>10</sup> Provided the EL25-024 Settlement includes customer protections addressing the adverse economic effects of the accelerated Sherco coal retirements, Staff evaluated new resource additions in the context of resulting actual capacity and energy needs. Staff found the recovery of Sherco Solar 1, 2, and 3 to be reasonable. The Sherco gen-tie line was also reviewed in conjunction with

<sup>8</sup> MPUC Docket No. E002/RP-19-368 Reply Comments (Xcel Response to Staff DR 1-1, Attachment B).

<sup>9</sup> The EL25-024 Settlement also establishes a mechanism for an additional reduction in the future.

<sup>10</sup> See EL25-024 Staff Memorandum, Staff Analysis of Relevant Resource Decisions, beginning page 12.

Staff's review of the Sherco Solar facilities. Staff determined the Company's least-cost planning used reasonable assumptions and allows the Company to make efficient use of existing Sherco-area transmission capability and interconnection rights, reducing development risk and avoiding the uncertainty of new queue positions. Ultimately, Staff finds the Company's decision to construct the Minnesota Energy Connection project to be reasonable.

## **2026 TCR REVENUE REQUIREMENT**

The 2026 revenue requirement excluding the Minnesota Energy Connection project was \$2,475,901. Including the Minnesota Energy Connection project updates the 2026 revenue requirement to \$3,299,886, an increase of \$823,985. The estimated 2026 revenue requirement is 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 23 transmission projects and MISO Schedule 26 and 26A revenue and expenses. The only other updates the Company made to the tracker was to update actual and forecasted revenue received through June 2026.

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.

## **JULY 1, 2026 TCR RATE**

The TCR rate of \$0.001067 per kWh, effective January 1, 2026, was calculated based on forecasted sales from January 2026 through December 2026. The rate including the Minnesota Energy Connection revenue requirements, calculated based on forecasted sales from July 2026 through December 2026, results in a rate of \$0.001422 per kWh to be effective July 1, 2026, which represents an increase of \$0.000355 per kWh compared to the January 1, 2026 rate. The typical residential customer using 750 kWh per month will see a bill impact of \$1.07 per month associated with the 2026 TCR rate, which is an increase of \$0.27 per month compared to bills with the TCR rate currently in effect.

While the Company notes it would not oppose waiting to update the TCR rate factor to include the project in the next annual TCR filing seeking approval of 2027 revenue requirements, Staff believes it is appropriate to update the rate beginning July 1, 2026. Updating the rate at this time, rather than waiting to include 2026 revenue requirements associated with the Minnesota Energy Connection project, results in lower carrying charges for customers and helps to phase in the increase associated with this project, as spend on this project will ramp up in 2027.

## **RECOMMENDATION**

Staff recommends the Commission approve the revised 2026 TCR Rider revenue requirements, revised 2026 TCR Rider Adjustment factor and revised tariff sheet with an effective date of July 1, 2026.