

Xcel Energy - Funding the Next Generation of Power

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Topic: Capital Allocation, Corporate Strategy, Customer Strategy

Industry: Electric Utilities

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Management perspective: Xcel Energy's executive capital-planning team

Case convention: This assignment is hypothetical. It does not describe an actual private meeting or board proposal. [S1]

Executive Summary & Decision

On the morning of January 25, 2024, Xcel Energy presented a five-year capital plan totaling \$39 billion for 2024-2028. The plan covered transmission, distribution, generation, natural gas and other investment. Separately, the company identified approximately \$5 billion of potential renewable-generation additions across three utility systems. These additions were outside the base plan and remained contingent on resource solicitations and regulatory approvals. [S1; S2]

The capital question was not simply whether to build more renewable generation. Xcel had to weigh project ownership against power-purchase agreements (PPAs), determine how quickly to commit, and coordinate generation with transmission, distribution and firm-resource needs. Those decisions affected construction risk, financing, customer bills, reliability and regulatory review. The public materials did not disclose the bids, hourly system models or project-level economics needed to identify a precise least-cost mix.

Decision assignment: Recommend how Xcel should handle the potential incremental resource pipeline through 2028. Specify which commitments to advance, which to stage or defer, and what approval, cost, reliability and customer-impact gates should govern each step. Explain how your recommendation differs across utility systems and how you would compare owned projects with contracted supply. Treat the approximate \$5 billion as a hypothetical planning envelope, not an approved budget or committed expenditure.

1. Xcel's Businesses and Regulatory Setting

Xcel Energy is a holding company whose electric and gas services are delivered through regulated subsidiaries in several states. Its generation, transmission and distribution investments do not pass through one uniform approval process. Utility ownership, a PPA with a third-party generator, transmission upgrades and customer cost recovery have different economic and regulatory consequences. [S1; S3]

An owned generation project can require substantial construction capital and may enter a utility's rate base only subject to applicable approvals and prudence review. The utility also bears execution and operating responsibilities. A PPA can avoid some direct construction capital

while still creating long-term payment, counterparty and integration obligations. Neither structure alone establishes lower total customer cost or stronger reliability.

The Colorado Public Utilities Commission's Decision C24-0052 concerned Public Service Company of Colorado (PSCo), not every Xcel subsidiary. Mailed January 23, 2024, it approved a modified Colorado Clean Energy Plan portfolio for further due diligence and negotiation. Company-owned projects still required project-specific certificates of public convenience and necessity (CPCNs). The order also addressed transmission, solicitation and performance incentives for utility-owned generation. It did not approve final economics for every project or authorize the broader Xcel capital plan. [S4]

Other activity was at different stages. Xcel's January presentation described bids and planning processes involving Southwestern Public Service (SPS) and the Northern States Power (NSP) system. These processes had their own jurisdictions, schedules and approval gates; a Colorado decision could not substitute for them. [S2; S4]

2. A \$39 Billion Base Plan and a Potential Increment

Exhibit 1. Base capital expenditures, 2024-2028

Category	Planned amount (US\$bn)
Transmission	11.50
Distribution	10.60
Renewable generation	5.61
Other electric generation	4.94
Natural gas	3.24
Other	3.11
Total	39.00

Source: Xcel's January 25, 2024 earnings release and presentation. Amounts are management's rounded plan, not approved rate base or completed investment. Transmission and distribution together are about 57% of the base plan. [S1; S2]

Xcel said the base plan excluded potential renewable additions at PSCo, SPS and NSP that could add approximately \$5 billion of capital expenditures. The presentation's bridge showed roughly \$2.62 billion for PSCo, \$0.74 billion for SPS and \$1.64 billion or more for NSP resource solicitations. The figures were approximate and depended on solicitations and approvals; the bridge does not establish a firm ceiling or a single authorized program. If fully executed, the additions would raise the five-year total to roughly \$44 billion. [S1; S2]

The possible additions also competed with substantial grid needs. Annual base-plan spending was expected to peak at \$9.3 billion in 2025, compared with \$7.4 billion in 2024, \$7.9 billion in 2026, \$7.6 billion in 2027 and \$6.8 billion in 2028. The presentation showed approximately \$1.1-\$1.4 billion of incremental resource investment in each of the later years shown; these plotted amounts were rounded. [S2]

Exhibit 2. Resource processes described at the cutoff

Utility / jurisdiction	Publicly described status	What remained unresolved
PSCo / Colorado	A modified 5,800 MW portfolio had PUC approval for further diligence and negotiation. The presentation described 3,100 MW of company-owned projects (54% of the portfolio), approximately \$4.8bn of generation investment, and approximately \$2.6bn of transmission investment, with owned projects to proceed through CPCN review.	Project-specific prudence and certificates, final contracts and economics, transmission approvals and customer impacts. The portfolio approval was not blanket authorization of all costs.
SPS / New Mexico and Texas	The company was evaluating bids for 1,200 MW of build-transfer wind and 650 MW of solar plus storage, as well as an 800 MW firm dispatchable-resource solicitation. A New Mexico recommended portfolio of 648 MW had a decision expected in 2024 Q3.	Which bids would be selected, the balance of state approvals, project costs and reliability contribution. The activities were not all equivalent or necessarily additive.
NSP system / Upper Midwest	An integrated resource plan was expected in February 2024. The company described a potential 5,000-10,000 MW need through 2030 and ongoing resource solicitations.	The plan, timing, resource mix, bid economics and state-level review were not yet known.

Source: Xcel January 2024 earnings presentation, slide 16 (PDF p. 15), and Colorado PUC Decision C24-0052. Figures are company descriptions of distinct processes, not one consolidated procurement award. [S2; S4]

The scope differences matter. A Colorado portfolio decision could inform questions about project review and ownership incentives, but it did not decide SPS or NSP resource selection, nor determine whether their spending would be recovered from customers. The approximate \$5 billion did not disclose the final project list, ownership mix, or whether every associated network or firm-capacity cost was included.

3. Financing, Earnings and Customer Cost

For the \$39 billion base plan, management described funding from \$22 billion of operating cash flow after dividends and pensions, \$13 billion of new debt, \$0.5 billion of dividend-reinvestment and benefit-plan equity, and \$3.5 billion of other equity. For capital spending above the base plan, Xcel generally expected an approximately 40% equity / 60% debt mix. Applying that mix mechanically to a fully spent \$5 billion would imply \$2 billion of equity and \$3 billion of debt, but this is only classroom arithmetic-not a company commitment or project financing plan. [S1; S2]

Xcel reported 2023 diluted earnings per share of \$3.21 on a GAAP basis and \$3.35 on its ongoing, non-GAAP basis. Its 2024 ongoing EPS guidance was \$3.50-\$3.60. These measures describe earnings, not customer value or the lifetime cost of a resource. The release attributed 2023 ongoing EPS growth partly to infrastructure recovery and higher sales, with depreciation, interest and weather among the offsets. [S1]

Management said average residential electric and natural-gas bills over the prior five years had been 28% and 14% below national averages, respectively. The release did not provide enough detail to independently assess the comparison by state, customer class or methodology. It is a

company claim, not an independently validated bill-impact estimate for new projects. [S1]

The decision therefore needs separate views of parent financing, utility-subsidary capital structure, regulatory recovery timing, project economics and customer bills. An owned project might earn a regulated return if approved and prudently managed; that return does not by itself prove that ownership is cheaper for customers. A PPA may reduce construction exposure while preserving contract, market and reliability risks.

4. Competing Strategies

A. Commit early to approved or near-term projects

Advance viable renewable projects and enabling transmission while procurement and tax-credit opportunities remain available. Earlier commitments could address resource needs, hedge fuel-price or emissions exposure and support planned retirements. However, construction, supply-chain, interconnection and transmission risks can raise costs or delay service. Recovery may also be delayed or limited by regulatory review.

B. Stage the pipeline against explicit gates

Proceed with near-term projects that clear applicable approvals, bid, deliverability and reliability screens; defer later commitments until evidence improves. Possible gates include bid prices, project milestones, interconnection and transmission readiness, forecast load, resource adequacy, tax-credit treatment and state approvals. Staging retains flexibility under uncertainty, but delay can sacrifice attractive bids or incentives and leave the utility exposed to market, fuel or capacity risk.

C. Emphasize networks and contracted resources while limiting owned additions

Protect high-priority transmission, distribution and safety work, and use competitive contracted supply where it meets the system need. Deferring discretionary utility-owned generation could limit construction and financing exposure. Yet contracted supply still has a price, counterparty and integration profile; relying on future markets can increase exposure to scarcity and price volatility. Network investment and generation are not interchangeable if the system needs both.

These approaches can be combined and need not apply uniformly across PSCo, SPS and NSP. A defensible recommendation can differ by subsidiary and project maturity. Each should be compared on equivalent service, timing and reliability-not nameplate megawatts alone.

5. What the Evidence Can and Cannot Decide

Utility planning involves choices under uncertainty. A review of western utility resource plans found varied approaches to comparing expected cost and cost variability, including scenarios and stochastic analysis. The study is dated and does not supply current Xcel cost inputs. Research on regulated networks highlights information asymmetry and the challenge of judging lumpy, heterogeneous assets, while cautioning against treating a simple capital-bias theory as proven evidence of overinvestment. [S5; S6]

Research on renewable-support auctions also suggests that project completion incentives can depend on bid security, penalties and cancellation rights. Those results come from modeled support auctions and are not an estimate of Xcel procurement outcomes. Students should ask what the actual Xcel solicitation and contract terms require before applying the mechanism. [S7]

Public information at the cutoff did not show the confidential bid stack, project-specific PPA prices and escalators, construction cost and schedule, hourly generation profiles, capacity accreditation, storage duration, curtailment, interconnection costs, or customer bill impacts by class and state. It also did not provide all subsidiary-specific recovery and financing terms. The evidence supports a decision process and conditional portfolio recommendation; it does not support a precise public-data least-cost mix, project NPV, EPS contribution or bill forecast.

Discussion Questions

1. What should Xcel commit to now, and what should remain contingent? Identify the gates that would release or stop each tranche.
2. How should the answer differ across PSCo, SPS and NSP given their separate regulatory and procurement positions?
3. For which projects might ownership create value relative to a PPA, and what evidence is needed to compare total system cost and risk?
4. How should the company protect reliability and customer affordability while balancing the \$39 billion base plan against a possible additional \$5 billion?
5. What forecast, bid, contract or regulatory development would cause you to change your recommendation?

Sources

- **[S1]** Xcel Energy Inc., “2023 Year End Earnings Report,” January 25, 2024, SEC Form 8-K Exhibit 99.01, accession 0000072903-24-000028. [SEC filing index](#).
- **[S2]** Xcel Energy Inc., “2023 Year End Earnings Report Presentation,” January 25, 2024, slides 11-17 and 20-21. [Investor presentation](#).
- **[S3]** Xcel Energy Inc., 2022 Form 10-K, filed February 23, 2023, Business, Regulation and Risk Factors. [SEC filing](#).
- **[S4]** Colorado Public Utilities Commission, Decision C24-0052, Proceeding 21A-0141E, mailed January 23, 2024. [Decision PDF](#).
- **[S5]** Mark Bolinger and Ryan Wiser, *Balancing Cost and Risk: The Treatment of Renewable Energy in Western Utility Resource Plans*, LBNL-58450 (2005), pp. 41-43, 59-76. [Full report](#).
- **[S6]** Paul L. Joskow, “Incentive Regulation and Its Application to Electricity Networks,” *Review of Network Economics* 7(4) (2008), pp. 547-560. [Author manuscript](#).
- **[S7]** David Matthäus, Sebastian Schwenen and David Wozabal, “Renewable Auctions: Bidding for Real Options,” *European Journal of Operational Research* 291(3) (2021), pp. 1091-1105. [Author PDF](#).

Information boundary: This case reflects information available through January 25, 2024, 7:59 a.m. Mountain Time. Xcel's earnings call scheduled for 9:00 a.m. Central, its remarks and Q&A, and all later filings, resource-plan decisions and outcomes are excluded.