

Staff Briefing Papers Volume 1: Financial Issues

Meeting Date June 11, 2026 Agenda Item 1***

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

Docket No. **E-002/GR-24-320**

In the Matter of a Petition of Xcel Energy, for Authority to Increase Rates for Electric Service in the State of Minnesota

Issues Should the Commission adopt all of the recommendations in the ALJ Report? If not, what level of revenue is appropriate for the Company during the test year? How should that revenue be collected from its customers?

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✓ **Relevant Documents**

Date

See Volume 0



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I. DISPUTED FINANCIAL ISSUES

A. Sherco Unit 3 and Allen S. King Coal Plants Remaining Lives

1. Issue

Should the Commission approve an accelerated depreciation schedule for Sherco 3 and Allen S. King Coal plants to match the approved early retirements of each?

2. Summary

This issue concerns the ratemaking treatment of the depreciation lives and cost for two coal generating plants Sherco Unit 3 and Allen S. King, both of which early retirements were approved in Xcel Energy's 2024-2040 Integrated Resource Plan (IRP).¹ King and Sherco 3 plants will be retired 2028 and 2030 respectively. King had retirement date of 2038 and Sherco 3 had a retirement date of 2034.

The Commission initiated Docket No. E-002, E-015, E-017/CI-23-375 to investigate depreciation accounting and other ratemaking issues as they relate to early-retiring electric generating facilities mainly coal-fueled facilities that are being retired to meet Minnesota's 2040 decarbonization goals. The order established a four-tiered approach for ratemaking treatment:

- Tier 1: Data Gathering Phase: Is plant used and useful, plant size, original date of retirement, impact on ratepayers and has the utility prudently operated the plant will also be considered. Move to Tier 2.
- Tier 2: Does the early-retiring asset meet the criteria established for accelerated depreciation? If yes, stop. Assign accelerated depreciation. If no, move to Tier 3.
- Tier 3: Does the early-retiring asset meet the Tier 2 standards, except that accelerated depreciation would cause rate shock? If yes, assign regulatory asset with a possible return. If no, move to Tier 4.
- Tier 4: Further investigation is required to determine appropriate ratemaking treatment. (Tier 4 assumes the asset is of unique nature or the plant was not used and useful at the time of early-retirement or possible prudency concern.)²

3. Xcel Energy – Direct

In the Company's direct testimony, Xcel proposed no changes to the remaining lives for Sherco Unit 3 and Allen S. King. Rather than accelerating depreciation to match the shortened IRP operating lives, the Company proposed that each facility continue to be depreciated on its currently approved schedule and that, upon retirement, any remaining net book value (NBV) be transferred to a regulatory asset coupled with the Commission-approved Weighted Average

¹ Docket Nos. E002/RP-24-67

² Docket No. E-002, E-015, E-017/CI-23-375 Order at 7

Cost of Capital (WACC). Xcel noted that this approach is consistent with the proposal the Company made in Docket No. E002, E015, E017/CI-23-375.

Xcel noted that the IRP approved early retirement dates of 2028 for King and 2030 for Sherco Unit 3, and that the Commission has yet made a decision regarding the appropriate ratemaking treatment for those early retirements. The Company stated it would submit any necessary updates and alternative proposals in rebuttal testimony, as required by Docket No. CI-23-375.

4. Department of Commerce – Direct

The Department recommended that the Commission match the depreciation lives and depreciation expense of Sherco Unit 3 and the Allen S. King plant to the IRP operating lives approved by the Commission in the 2024-2040 IRP Order.³ The Department proposed the extension of Monticello and Prairie Island Nuclear plants could offset the accelerated depreciation of Sherco 3 and King coal plants.

Table 1. Xcel Revenue Requirement Updates for Nuclear and Coal Remaining Life Change⁴

	2025	2026
NSPM-Remaining Life Reduction – King	\$38,047,714	\$35,954,078
NSPM-Remaining Life Reduction - Sherco 3	\$20,777,918	\$19,425,884
NSPM-Remaining Life-Monticello Life Extension	(\$13,173,208)	(\$12,821,353)
NSPM-Remaining Life-Prairie Island Life Extension	(\$56,542,629)	(\$56,120,317)
Total	(\$10,890,204)	(\$13,561,708)

5. Xcel Energy – Rebuttal

The Company did not agree with the Department’s recommendation to shorten the depreciation lives of Sherco Unit 3 and King. The Company argued that the size of the impacts of \$58.8 million in 2025 and \$55.4 Million in 2026 supports its proposed regulatory asset treatment, consistent with the Commission’s May 14, 2025 Order Establishing Four Tiered Approach for Ratemaking Treatment of Early Retiring Facilities in Docket No. E002,E015,E017/CI-23-375. The Company further argued that implementing accelerated depreciation with final rates would likely prevent full recovery because the accelerated depreciation expense is not included in interim rates.

Xcel Energy evaluated the Commission’s four-tiered framework and argued that under Tier 2, accelerated depreciation may not be appropriate when it could result in rate shock. Under Tier 3, a regulatory asset with a possible return is contemplated, which the Company asserted best balances the impacts of approving early retirements as in furtherance of state clean energy policy. The Company’s proposed regulatory asset approach would defer cost to post-retirement, maintain current depreciation schedules in the interim and avoid a near-term spike in revenue requirement.

³ Docket Nos. E002/RP-24-67

⁴ DOC Jones Direct at 15.

6. Office of the Attorney General – Rebuttal

The OAG recommended not accelerating depreciation on Sherco Unit 3 and King coal plants. The OAG is concerned with Tier 2 rate shock and the focus of intergenerational of future ratepayers does not look at the intergenerational of the current ratepayers from the accelerated depreciation. Under accelerated depreciation, current ratepayers would bear a greater burden of depreciation expense than they would if the generating facility was operated for its full useful life. One of the reasons fossil fuel generators are retired early is to benefit future ratepayers by reducing emissions and fuel and maintenance costs.

7. Xcel Large Industrial – Rebuttal

XLI recommended that the Commission reject the Department’s proposal of accelerated depreciation of Sherco 3 and King Plants. XLI is concerned of rate shock and parties haven’t vetted the proposal thoroughly. XLI recommended Xcel Energy to request the regulatory ratemaking treatment of Sherco 3 and King Plants in Xcel Energy’s next rate case.

8. Department of Commerce – Surrebuttal

The Department maintained its recommendation to approve depreciation acceleration to match early retirement of the 2 coal plants. The Department argued that, when the accelerated depreciation of Sherco Unit 3 and King coal plants are combined with extensions of Monticello and Prairie Island nuclear plants, the net effect is only (\$10.9) million in 2025 and (\$13.6 million) in 2026. The Department further argued that matching up depreciable lives with the operating lives avoids an intergenerational subsidy in which future ratepayers pay for an asset from which they do not benefit.

9. Office of the Attorney General – Surrebuttal

The OAG continued to recommend against changing the depreciation schedule in this rate case. The OAG also recommended that the Sherco Unit 3 and King coal plants not be assigned as a regulatory asset treatment at this time. As a result, the Commission should not determine how any future remaining net book value (NBV) will be treated and should revisit the issue when each facility is retired instead.

10. Xcel Large Industrial – Surrebuttal

XLI continued to recommend rejecting Xcel Energy’s proposed regulatory asset treatment of Sherco 3 and King Plants. XLI suggests it is premature for regulatory asset treatment as the plants have not been retired.

11. ALJ Report

The ALJ found that the Departments proposed depreciation acceleration would cause rate shock and intergenerational inequity. Since the Early Retirement Docket, the Commission has a new standard for depreciation for assets that will be retired before their end of usefulness and will be subject to the four-tiered framework previously described.

The ALJ also found that creating a regulatory asset at this time would be inconsistent with the Early Retirement Docket. The usefulness of the assets has to be assessed at the time of retirement. The ALJ Found:

339. The Commission should adopt Xcel’s recommendation, supported by the OAG and XLI, to not adjust the remaining lives for the Sherco 3 and King plants.

340. The Commission should reject the Company’s proposal to create a regulatory asset for the Sherco 3 and King plants, as recommended by the OAG and XLI.

12. Exceptions to ALJ Report

a. Xcel Energy

Xcel Energy did not seek a regulatory asset currently but proposes to establish a regulatory assets for Sherco 3 and King plants at the end of operating lives. The Company requested that the Commission determine that the “Tier 3” approach advanced by the Company here is appropriate and that a regulatory asset should be created for each of the plants upon retirement.

b. Department of Commerce

The Department disagreed with the ALJ recommendation to by leave depreciation of Sherco 3 and King plants as they were filed. The analysis of future ratepayers enjoying environmental benefits if overly simplistic and ignores reality that the uncovered depreciation that would be owed had current operational life. Future ratepayers should not be forced to pay off a regulatory asset for early retired plants. The Department requested the following modifications to the ALJ Report:

~~335. The Department’s proposal would result in rate shock by increasing rates by \$58.8 million in 2025 and \$55.4 million in 2026. The proposed extension of the depreciation lives, and resulting revenue requirement reduction, of Xcel’s nuclear facilities is not an appropriate comparison point from which to suggest otherwise. The ultimate result of accepting the recommendations in this Report would be a substantial rate increase; and that increase would be nearly \$60 million per year higher if the Sherco 3 and King depreciation lives are shortened.~~

~~336. The Department’s proposal would also result in intergenerational inequity. Customers in 2025 and 2026 would absorb the rate shock of paying for the sudden increase in rates, while environmental benefits of the accelerated closure of the two coal plants would be enjoyed by customers no longer paying for those generation assets.~~

~~337. It is immaterial whether matching depreciation lives to operating lives was previously a standard Commission practice. The Commission explicitly recognized the complexities when deciding ratemaking treatment for large coal assets retired early to achieve carbon reduction goals, and developed a new practice for addressing those situations in the Early Retirement Docket. In that proceeding, the Commission contemplated that rate treatment of such assets would be subject to the four-tiered framework previously describe.~~

~~338. Creating a regulatory asset at this time would also be inconsistent with the framework established in the Early Retirement Docket. Tier 3 of that framework applies to “assets that remain used and useful at the time of their earlier retirements.”³⁵¹ It is axiomatic that used and usefulness at the time of the plants’ retirement cannot be assessed until the time of their retirements.~~

~~339. The Commission should adopt Xcel’s recommendation, supported by the OAG and XLI, to not adjust the remaining lives for the Sherco 3 and King plants.~~

~~340. The Commission should reject the Company’s proposal to create a regulatory asset for the Sherco 3 and King plants, as recommended by the OAG and XLI.~~

335. Utilities recover capital costs for assets that are “used and useful” in providing service by depreciating those costs over a number of years. The costs of an asset generally must be amortized over its “probable service life,” which is defined as the “time extending from the date of its installation to the forecasted date when it will probably be retired from service.”

336. The depreciable lives of the Sherco 3 and King plants should be updated to match their approved operating lives. This decision reflects the Commission’s usual practice. Moreover, matching the depreciable lives to the plants’ approved operating lives now will avoid rate shock by resulting in a net decrease to depreciation expense in this case, Matching depreciation lives with operating lives avoids intergenerational subsidies (i.e., future ratepayers paying for benefits received by current ratepayers). Here, there is an opportunity to pair the accelerated depreciation for the early-retiring coal plants with the nuclear plants’ extended deprecation lives, resulting in a net reduction to revenue requirements when taken together. Adjustments to depreciation lives should take place in rate cases, which means that it will be several years before the Commission’s next opportunity to adjust depreciation lives. Additionally customers pay their bills as a whole and not by plant, so the net reduction for depreciation changes does not result in rate shock for

customers. Finally, if Xcel's proposal to create a regulatory asset earning the same rate of return as rate base is granted, ratepayers will end up paying \$63 million more in rates than they would if the depreciation were matched to the plants' operating lives.

13. Decision Options

- 1001. Require Xcel Energy to accelerate depreciation schedule on Sherco Unit 3 and King coal plants to reflect current retirement dates. (Department)
- 1002. Allow Xcel Energy to keep depreciation for Sherco 3 and King Plants as filed. (Xcel, OAG, ALJ)
- 1003. Allow Xcel Energy to create a regulatory asset for Sherco 3 and King Plants. (Xcel)
- 1004. Reject Xcel Energy's proposed regulatory asset for Sherco 3 and King Plants. (OAG, XLI, ALJ)

B. Prepaid Pension And Accrued Liabilities

1. Issue

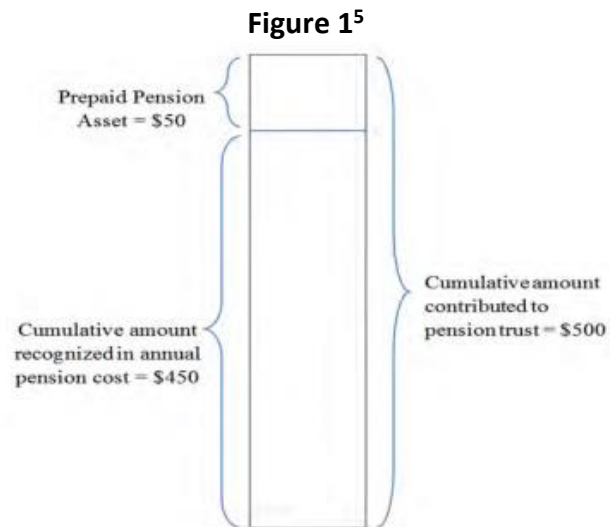
Should the Commission approve Xcel's proposed Prepaid Pension And Accrued Liabilities expenses?

2. Xcel Energy – Direct

a. Overview of the Prepaid Pension Assets

Xcel stated that the prepaid pension asset arises in connection with the Company's qualified pension plan. Over the life of the plan, if the cumulative expense amount is less than the cumulative contributions made by the Company, the Company has a prepaid pension asset. If the cumulative recognized expense exceeds the cumulative contributions to the plan, there is an Accrued but Not Paid Contribution (accrued liability). Based on the Company's accounting records, the Company asserted that it can quantify the total amount of actuarially calculated expense for each of those benefits over the entire period that the Company has offered that benefit.

Xcel also noted that, over the long run, pension contributions and pension expense will even out. However, in the short and intermediate run there will almost certainly be differences, which are recorded as prepaid pension assets or pension liabilities. Figure 1 depicts the prepaid pension asset as the excess contributions over the recognized pension expense.



Xcel indicated that pension contributions and expense are different in any given year because the qualified pension expense calculations are governed by the Aggregate Cost Method (ACM) and Financial Accounting Standard (FAS) 87. These standards establish accounting rules that companies must follow in determining their pension costs to comply with Generally Accepted Account Principles (GAAP). In contrast, the contributions are driven by federal law requirements under the Employee Retirement Income Security Act (ERISA) and the Internal Revenue Code (IRC), such that Xcel has little to no discretion regarding its funding obligations for the pension fund. Over the long run, the cumulative employer (ie: shareholder) contributions made to a plan in accordance with ERISA, the Pension Protection Act, and the IRC rules will be roughly equal to the cumulative pension expense recorded under both the ACM and FAS 87. However, significant differences can occur over the short and intermediate run.⁶ While both the pension expense and contribution calculations use accrual methodologies, the assumptions, attribution methods, and periods of time over which the costs are required to be recognized are different and thus can often result in different annual amounts. The Company pointed out that, except for the payment of benefits and plan expenses, federal law prohibits the withdrawal of any amounts from the pension trust fund. Once contributions are made, they are locked away—just like investments in physical plant.

Xcel also indicated that the funded status of the pension trust measures whether there are currently enough assets to pay its accumulated obligations to plan beneficiaries in the future. Whereas the prepaid pension asset measured the extent to which the Company contributed more to the plan than it has recognized in pension benefits expense to date. Xcel described the funded status as a financial reporting mechanism while the prepaid pension asset reflects the difference in “hard cash” between cumulative investor-supplied contributions to the pension fund and cumulative expense.

⁵ Ex. Xcel-57 at 57. (Schrubbe Direct)

⁶ Ex. Xcel-57 at 32. (Schrubbe Direct)

The Company noted that the Financial Accounting Standards Board enacted FAS 158 in 2006, which did not indicate that a prepaid pension asset no longer exists or should be written off. Thus, the pension trust can have a prepaid pension asset at the same time the future obligations are not fully funded.

Xcel indicated that both the contribution and expense amounts are publicly disclosed in the Company's 10-K filings with the Securities and Exchange Commission (SEC), and the Company supplied a breakout of how the 2023 amount were calculated in Table 2 below.

Table 2 - Amounts Not Yet Recognized as Components of Net Periodic Benefit Cost, and Net Prepaid Calculation (\$M)⁷

Description	As of 12/31/2023
Net Loss	\$321
Prior Service Credit	\$ -
Total	\$321
Funded Status of Plans at Dec 31	\$(98)
GAAP Prepaid Pension Asset	\$223
ACM - Regulatory Liability Offset	\$(42)
Prepaid Pension net of Reg Offset	\$181

The two amounts added together (\$321 million – \$98 million = \$223 million (rounded)) represented the total NSPM GAAP prepaid pension asset as of December 31, 2023. This amount is reduced by the Aggregate Cost Method offset of \$42.5 million, resulting in a net prepaid of \$181 million, which represented the beginning balance for the 2024 forecast.

The 2024 end of year balance/2025 beginning balance of the prepaid pension asset (approximately \$192 million, before ADIT offset) is determined by subtracting estimated expense and adding estimated cash contributions, as illustrated in Table 3.

⁷ Ex. Xcel-57 at 60 (Schrubbe Direct)

Table 3 – NSPM Prepaid Pension Asset Contributions and Expenses (Total Company)⁸

Year	Beginning Asset (Liability) Balance	Recognized Expense	Cash Contributions	Other	Ending Asset (Liability) Balance
2009					\$(20,181,500)
2010	\$(20,181,500)	\$(6,481,000)	\$20,182,000		\$(6,480,500)
2011	\$(6,480,500)	\$(12,728,000)	\$41,375,000		\$22,166,500
2012	\$22,166,500	\$(28,981,000)	\$79,584,333	\$(1,080,000)	\$71,689,833
2013	\$71,689,833	\$41,706,000)	\$72,411,729		\$102,395,562
2014	\$102,395,562	\$(38,911,000)	\$52,114,844		\$115,599,406
2015	\$115,599,406	\$(34,213,000)	\$32,734,611		\$114,121,017
2016	\$114,121,017	\$(33,981,000)	\$49,429,675		\$129,569,692
2017	\$129,569,692	\$(34,862,000)	\$60,740,655	\$(620,000)	\$154,828,347
2018	\$154,828,347	\$(34,465,000)	\$63,147,000		\$183,510,347
2019	\$183,510,347	\$34,707,000)	\$46,817,855		\$195,621,202
2020	\$195,621,202	\$(31,384,000)	\$3,959,000		\$208,196,202
2021	\$208,196,202	\$(31,811,000)	\$34,109,000	\$(369,000)	\$210,125,202
2022	\$210,125,202	\$(27,379,000)	\$4,907,000		\$187,653,202
2023	\$187,653,202	\$(30,377,000)	\$23,279,000		\$180,555,202
2024	\$180,555,202	\$(29,870,000)	\$41,358,000		\$192,043,202

In sum, Xcel indicated multiple forms of clear documented, verified evidence showing that the Company has made cumulative contributions in excess of cumulative expense to the pension fund.

With regard to the five component amounts of pension expense (ACM or FAS 87) for each year of the claimed asset, the extent to which each component increased or decreased the claimed prepaid pension asset, and whether any increase or decrease was attributable to shareholder funding, Xcel supplied the relevant information in Schedules 9 and 11.⁹

b. Ratemaking Treatment of Prepaid Pension Asset

Xcel asserted that utility prepayments are generally treated as an addition to rate base, whereas prepayments by customers (accrued liabilities) are generally treated as a reduction to rate base. Hence, the Company proposed to include its prepayments of pension expense as an addition to rate base and to treat the customers' prepayments as a reduction to rate base. Xcel asserted that, since the prepaid pension asset is larger than the accrued liabilities, the Company has a net asset and therefore has an increase to rate base (net of ADIT). The Company proposed to earn a return on the asset at the Company's weighted average cost of capital (WACC).

With regard to the rise of the Accumulated Deferred Income Taxes (ADIT) in connection with the prepaid pension asset or accrued liability, when the Company makes a contribution, it is

⁸ *Id.*, at Schedule 14 (Schrubbe Direct).

⁹ Ex. Xcel-57 at 25-31, 40-42, 44-46, Schedule 9 at 1-2, and Schedule 11. (Schrubbe Direct)

allowed to deduct the contribution amount (up to IRS-imposed limits). That deduction shields income from taxes, which gives rise to deferred taxes. Thus, the amount by which the contributions in a particular year exceed the annual recognized cost for that year gives rise to a deferred tax liability. The opposite situation occurs when the annual cost recognized for a particular benefit exceeds the contribution, which give rise to a deferred tax asset. The Company shows the amount of benefit assets and liabilities included in the test year rate base and the amounts that must be offset by the ADIT. On a Minnesota electric jurisdictional basis, Xcel reported a net balance of approximately \$90.2 million.

Table 4 - Pension and Benefits Assets and Liabilities (\$)
2025 Test Year¹⁰

Rate Base Benefit (Short and Long-Term)	Non-Plant Rate Base Asset/(Liability)	Associated Accumulated Deferred Tax Asset/(Liability)	Net Rate Base Impact Asset/(Liability)
Prepaid Pension Asset	\$147,783,077	\$(41,426,552)	\$106,356,525
Retiree Medical - FAS 106	\$17,071,666	\$4,785,529	\$(12,286,137)
Post-Employment Benefits FAS 112	\$(5,394,491)	\$1,512,184	\$(3,882,308)
Total	\$159,460,252	\$(35,128,839)	\$90,188,080

The Company asserted that, because it represents shareholder capital held for future use and because it will reduce ratepayer costs in those years, the \$90.2 million should be added to the Company's rate base. In other words, Xcel requested a return on the asset during the period investor contributions exceed the amounts recovered through pension expense included in rates, not recovery of the asset itself.

The Company noted that the prepaid pension asset's growth was driven by two factors: First, the enactment by Congress of the Pension Protection Act (PPA) of 2006. The PPA required plans to be 100% funded within seven years, and created penalties for underfunded plans, which included an increase in Pension Benefit Guaranty Corporation (PBGC) premiums. Xcel further stated that the PBGC was established by Congress to insure pension benefits in the private sector. The second factor was the reduction in interest rates, which were caused by the Federal Reserve's efforts to stimulate the national economy in the wake of the 2008 recession. The resulting drop in discount rates caused the Company's pension liabilities to become larger, which increased the amount of underfunding.

c. Justification for Including the Net Asset in Rate Base

The Company stated that the net asset should be included in rate base for three separate and independent reasons. First, that it is a well-established regulatory principle for prepayments to be included in rate base, regardless of whether they are prepayments by the utility or by its customers. Second, having an adequately funded pension plan helps attract and retain the employees who provide safe and reliable electric service to customers. Third, customers are

¹⁰ *Id.*, at 66. (Schrubbe Direct)

receiving the benefit of a return on the prepaid pension asset and; therefore, it is appropriate that the Company earn a return on its prepayment as well.

Customers receive benefits through the annual pension cost determined under both the ACM (Xcel Plan) and FAS 87 (XES Plan), which includes an expected return on asset (EROA). The EROA percentage is multiplied by the value of the assets in the pension trust, and the product of that calculation is subtracted from the annual pension cost. Thus, the return on the prepaid pension asset reduces the annual qualified pension cost passed on to ratepayers on a dollar-for-dollar basis. The pension trust fund balance that is multiplied by the EROA includes the prepaid pension asset. The Company pointed out that customers receive the benefit of the earnings on the entire amount of assets in the pension trust, not just the amount that has been recognized in annual pension cost. The return is reflected as a decrease in annual pension cost.

Xcel argued that it is appropriate to apply the WACC as the rate of return, because the prepaid pension asset is a utility asset funded by NSPM that directly supports providing utility service by enabling payment of valuable retirement benefits to utility employees. Additionally, the balance of the prepaid pension asset earns market returns (the EROA) that directly reduces the annual expense paid by customers through rates, which is an advantage that does not apply to most other service-producing assets. Customers also earn a return on the XES prepaid pension asset (in addition to the Company's), but do not pay a return on that asset because it has not been included in rate base for ratemaking purposes.¹¹

Table 5 quantifies the reduction in annual pension expense that customers experienced as a result of the prepaid assets.

Table 5 - State of Minnesota Electric Jurisdiction (2025 Test Year 13-Month Average)¹²

Pension Plan	Prepaid Pension Asset Balance	EROA	Rate Reduction from Prepaid Pension Asset
NSPM	\$147,783,077	7.25%	\$10,714,273
XES	\$28,650,151	7.25%	\$2,077,136
Total	\$176,433,228		\$12,791,409

Xcel argued that its proposal to have customers pay a 7.56% return on the \$90.2 million forementioned (or approximately \$6.8 million) is less than the forecasted return of \$12.8 million for the NSPM and XES prepaid pension assets.

The Company observed that the earnings on the prepaid pension asset will reduce the Company's revenue requirement by nearly \$12.8 million in 2025 and are expected to reduce the revenue requirement by a similar amount through 2026. Given that the reduction is passed through to customers on a dollar-for-dollar basis, Xcel asserted that its Minnesota retail customers realize a substantial benefit as a result of the prepaid pension asset. Additionally, the

¹¹ NSPM does not include the XES prepaid pension asset in rate base because the asset belongs to XES, not to NSPM.

¹² Ex. Xcel-57, at 73.

contributions that helped create the prepaid pension asset allow the Company to avoid incurring PBGC premiums that would otherwise be included within the annual pension cost charged to customers.

Notwithstanding the above, the Company repeated that the prepaid pension asset should be included in rate base; consistent with how other prepayments are treated, including prepayments made by customers. Xcel further argued that because customers receive a significantly greater rate reduction from the prepaid pension asset than the return asked to pay, it is reasonable and equitable for the prepaid pension asset to be included in rate base and earn a WACC return.

d. Minnesota Precedent Governing Treatment of the Prepaid Pension Asset

Xcel noted that, in Minnesota Power's appeal on its prepaid pension asset,¹³ the Minnesota Court of Appeals (COA) determined that "a utility's mandatory contributions to pension plans are an 'expense of a capital nature' to which the Commission must give 'due consideration' in determining the utility's rate base under Minn. Stat. § 216B.16, subd. 6." Additionally, the COA rejected the Commission's determination that a prepaid pension asset is categorically different from other kinds of assets (such as that it is purportedly "temporary" or "fluctuates in value"), and the Commission failed to explain its decision rejecting Minnesota Power's position that shareholders entirely funded its prepaid pension asset.¹⁴ In turn, the COA remanded back to the Commission for a determination "whether the prepaid pension asset is completely shareholder funded."¹⁵ Xcel attested that the entire prepaid pension asset that it sought to include in rate base resulted from investor contributions,¹⁶ and has never had negative pension expense.

Xcel indicated that the COA decision for Minnesota Power is now a relevant precedent for NSPM, and respectfully submitted that the Commission's reasoning for disallowing a return on and excluding prepaid pension assets from rate base for previous rate cases were either mistaken or did not apply to NSPM.

Like Minnesota Power, Xcel noted of being required by ERISA and the Pension Protection Act to make contributions to the pension trust, just as it is required to make investments in physical assets such as generation and transmission lines. Therefore, Xcel argued that investors are entitled to a return comparable to the return available on other types of investments, and there is no valid basis to treat the prepaid pension asset differently for ratemaking purposes because it's a balance sheet asset rather than a physical infrastructure asset.

¹³ Staff notes that Minnesota Power's appeal was prior to Xcel, thus a decision was rendered earlier by the Minnesota COA.

¹⁴ In re Application of Minn. Power for Auth. to Increase Rates for Elec. Serv. in Minn., --- N.W. 3d ---, 2024 WL 4112927, at *11 (Minn. Ct. App. 2024).

¹⁵ *Id.*, at 12.

¹⁶ Notably, customers do not make contributions to the pension trust. Only Xcel makes contributions, using investors' capital. The only thing NSPM's customers pay is annual pension expense, which is an O&M expense.

Xcel noted that the COA concluded that mere fluctuation in value does not change that shareholder contributions to the pension fund are expenses of a capital nature that must be given due consideration.¹⁷ Additionally, as Xcel has carried a prepaid pension asset for more than ten years, it demonstrated that it is not a short-lived asset.

Xcel indicated that while the prepaid pension asset earns an investment return from investing in financial markets, investors receive no benefit from those returns. In turn, every dollar of that investment return stays in the pension fund and is only used to reduce the annual pension expense charged to customers. Xcel argued that allowing customers to benefit from the market returns of the asset while denying a return to investors would effectively double count in customers' favor. Similarly, in Minnesota Power's rate case, the ALJ noted that "[f]ederal law prohibits the withdrawal of any amounts from the pension trust fund except for the payment of benefits and plan expenses. That is, the Company is not able to keep these earnings — customers receive 100% of the market return benefits because all of the market returns on the pension plan trust reduce pension expense, which results in lower rates."¹⁸

Lastly, Xcel noted other jurisdictions in Colorado, Texas, and New Mexico that concluded through contested proceedings and/or court determinations that cumulative Company contributions to the pension fund in excess of cumulative expense result in service-producing assets benefitting company employees and customers, and therefore an investor-funded asset belongs in rate base.¹⁹

3. Department of Commerce – Direct²⁰

a. Prepayments

The Department concluded that Xcel's proposed Net Pension Cost-Asset did not qualify as a "prepayment" properly includable in rate base, as it is equivalent to a non-current deferred asset or a deferred debit under the FERC Uniform System of Accounts. If it were to be recorded in a specific FERC account, the preferred account would be FERC Account No. 186 – Deferred Debits. Additionally, the Department noted that the prepaid pension asset differs from a prepayment for two reasons.

¹⁷ In re Application of Minn. Power for Auth. to Increase Rates for Elec. Serv. in Minn., --- N.W. 3d ---, 2024 WL 4112927, at *10-11 (Minn. Ct. App. 2024).

¹⁸ *In the Matter of the Application of Minnesota Power for Authority to Increase Rates for Electric Service in Minnesota*, Docket No. E-015/GR-21-335, FINDINGS OF FACT, CONCLUSIONS OF LAW, AND RECOMMENDATIONS at 56 (Sept. 1, 2022).

¹⁹ *Public Service Company of Colorado v. The Public Utilities Commission of the State of Colorado*, Case No. 19CV31427, Order at 18 (Denver County District Court, Mar. 12, 2020); *New Mexico Attorney General v. New Mexico Public Regulation Comm'n*, 359 P.3d 133, 140 (N.M. 2015); *Application of Southwestern Public Service Company for Authority to Change Rates*, Docket No. 43695, Order on Rehearing at 23 (Feb. 23, 2016).

²⁰ Staff notes that the Department's direct testimony from Terry Myers was not adopted by witness Steven Hunt in surrebuttal and was also not offered as an Exhibit at the Evidentiary Hearing. Nonetheless, a summary is provided for informational purposes.

First, it is not a current asset, but instead the net amount of two non-current balance sheet items, i.e., a non-current asset and a long-term deferred liability. The discussion of whether a “Prepaid Pension Asset” is a prepayment was addressed in a FERC letter on July 17, 2006, in Docket No. AC06-35-000, in response to the facts Florida Power and Light’s (FP&L) request. The letter stated:

“...it appears that the benefits associated with your prepaid pension cost are long term in nature and will not be realized in future current periods. Therefore, Account 165 (Prepayments) is not the preferred account to record your prepaid pension cost because it is classified as a current asset. Account 186 is a deferred debit account which provides for all debits not elsewhere provided for. Consequently, your prepaid pension costs are to be recorded in Account 186.”²¹

The Department argued that the facts in Xcel’s current rate case are not materially different than the FP&L case.

The second reason is that the proposed Prepaid Pension Asset cost lacked fundamental transitory character of a prepayment. In other words, it does not have a specific or fixed amortization period, appeared indefinite or permanent, and its value has increased dramatically over the 2008-2024 period.²²

The Department indicated that the Net Prepaid Pension Asset is determined based on pension funding and pension accounting, which are based on future economic and demographic assumptions that are inherently uncertain, and could change every year (i.e., inflation, investment markets, etc.). Additionally, Xcel did not directly record the Net Prepaid Pension Asset in FERC Account No. 165 or any other FERC account, and the reporting/recording of the funded status of the pension plan was required by the Statement of Financial Accounting Standards (SFAS) No. 158.

b. SFAS No. 158

The Department noted that SFAS No. 158 was issued to improve the financial reporting of pension plan information in financial statements. The improved reporting specifically addressed the funding status of both the pension plans and postretirement benefit plans for the entity’s “obligation” for funding. The Department indicated that the prepaid pension cost (asset) or the unfunded accrued pension cost (liability) are components of SFAS 158 in the recordation of the funded status of obligations to current employees and retirees on its books and records, only.

Additionally, SFAS No. 158, its successor Accounting Standard Codification Topic 715-30 (ASC 715-30), and GAAP did not require Xcel to record a prepaid pension asset or accrued pension liability directly on its books and records. However, as the “prepaid pension cost (asset)” is a combination of asset and liability, ASC 715-30 required Xcel, in its statement of financial

²¹ Ex. DOC-___, TMM-D-5. (Myers Direct)

²² Ex. DOC-___, TMM-D-6. (Myers Direct)

position, to recognize the “funded status” of Pension Plans each year, in the same manner as SFAS No. 158 previously required.²³ If the Pension Plan is overfunded, the overfunded amount is recorded as a non-current asset. Conversely, an underfunded pension plan is recorded as a long-term liability.

The Department indicated that all FERC jurisdictional entities were required to adopt SFAS No. 158 in the same manner for reporting to FERC as the entity adopted for reporting to stockholders,²⁴ and that the referenced FERC Accounting Guidance would also apply to Xcel in this proceeding. It further stated that the adoption and implementation of the accounting change from SFAS No. 158 may not affect the measurement or periods in which amounts are included in billing determinations (rates) without prior FERC approval.²⁵

c. Prefunding Obligations

The Department noted that Xcel’s pension contributions meet the key features of a “prefunding obligation,” and not an “investment.” Meaning, when Xcel prefunds its pension plan obligation it essentially makes advance payments or contributions into the pension plan trust, (a dedicated fund for the pension plan’s assets) to cover future benefit payments for its current employees and retirees. Those plan’s assets are invested to generate returns, which in turn helps reduce Xcel’s future pension contribution requirements.

Additionally, the Department indicated that the pension fund trust is a separate legal entity from the utility, which protects and safeguards the pension fund and its assets from creditors if the Company faces bankruptcy or financial difficulties.

The Department indicated that the Pension Protection Act (PPA) of 2006 required prefunding of future projected or estimated pension plan obligations in order to reduce insolvency risk, and these accelerated funding requirements are 100% tax deductible business expenses. For 2008-2024, Xcel received a full tax deduction for all pension plan contributions. Therefore, the Department argued that as Xcel has already benefited from the tax deductions of pension contributions in the year of contribution, it should not also benefit from a return on those pension contributions for which the Company no longer has an investment for federal income tax purposes. Additionally, all other prepayments and prefunded costs must be amortized over their respective period (current and future time periods) in order to reflect only the current year’s expense as deductible expenses for the determination of current income and federal income taxes.

²³ *Id.*, TMM-D-7 (Myers Direct).

²⁴ Ex. DOC-___, TMM-D-8 at 2, Item 1, Adoption of SFAS No. 158 for FERC Accounting and Reporting Purposes (Myers Direct).

²⁵ Ex. DOC-___, TMM-D-8 at 9, Item 7, Cost-of-Service Tariffs/Formula Rate. (Myers Direct).

d. Xcel's Proposed Prepaid Pension Asset

The Department indicated three reasons why Xcel's prepaid pension asset should not be included in rate base. First, the Department argued that Xcel's actuarial determined "Prepaid Pension Asset" balance should not be provided the typical treatment given to "prepayments", as it did not record the item in FERC Account No. 165, Prepayments. Second, Xcel's funding status of the pension plan trust is irrelevant, as it has an independent legal obligation to fund the pension plan for the benefit of its current employees and retirees, under both ERISA and the PPA 2006. Finally, the Department indicated two benefits Xcel received from pension contributions; 1) lower future contributions due to earned income offsetting recognized pension plan expenses; and 2) receipt of a 100% tax business expense deduction of pension contributions in the year they are made. The Department argued that these Company benefits far exceed the benefit that customers receive in the annual reduction of FERC Account No. 926, Employee Pensions and Benefits expenses; which are included in rates.

Additionally, the Department indicated that the incentive of the utility receiving a 100% tax business expense deduction in the year of contribution under the PPA 2006 resulted in the utility already fully expensing their "capital" investment (pension contribution) for federal income tax purposes. As such, it would be inappropriate to include the actuarial determined prepaid pension asset in rate base for which Xcel has already fully expensed through the federal income tax return.

e. Minnesota Court of Appeals

The Department contended that, in theory, the Minnesota Court of Appeals' decision that the Commission must give due consideration to utility contributions to pension plans as expenses of a capital nature, and should therefore be considered for inclusion in rate base is appropriate. However, in applying that theory, the Department recommended that the Commission consider that Xcel's Prepaid Pension Asset lacks the characteristics of a prepayment, and Xcel received a 100% tax business expense deduction of the required pension contributions in the year of receipt as an incentive.

If the Commission determined that Xcel has a remaining investment in their pension contributions, the Department argued that a reasonable alternative to the disallowance of the actuarial determined prepaid pension asset in the 2025-2026 rate base would be to include the annual incremental change in the prepaid pension asset for 2010 through 2026. This approach would reflect a 20-year amortization of each year's incremental change as if each year was a separate prepayment subject to a 20-year amortization period.

The Department indicated that a 20-year amortization period would be consistent with previous Commission Orders in Docket No.'s E-002/GR-12-961²⁶ and E-002/GR-13-868²⁷ in

²⁶ *In the Matter of the Application of Northern States Power Company for Authority to Increase Rates for Electric Service in the State of Minnesota*, ALJ Report, finding 186. (July 15, 2013), and adopted by Commission on September 3, 2013.

²⁷ *In the Matter of the Application of Northern States Power Company for Authority to Increase Rates for*

regard to unrecognized pension costs for the NSPM Plan, and would mimic more closely how typical prepayments, which are amortized over specified periods, with the unamortized balances included in the rate base and rates are treated. Furthermore, it would ensure that the temporary prepaid pension asset balances would be amortized over a definite period and would not be included indefinitely or permanently in rate base.

The Department's proposed use of a 20-year amortization period would result in an average prepaid pension asset of \$53.7 million and \$41.8 million for 2025 and 2026, in lieu of the Company's proposed average prepaid pension asset of \$106.3 million and \$100.3 million.²⁸

4. Xcel Energy – Rebuttal

Xcel noted that the Department's recommended adjustment did not accurately reflect removal of the prepaid pension asset from rate base, and the corrected amounts of the proposed adjustment were reflected in Schedule 4.²⁹

Xcel reiterated of requesting a return on the prepaid pension asset net of ADIT and the unfunded liabilities of \$90.2 million, not a return of the net funds comprising the asset. The Company noted that these cumulative investor contributions to the pension fund exceeding cumulative pension expense recovered in rates are a cost of providing utility service to customers. Additionally, Xcel noted that prepaid pension assets are similar to working capital, as both ensure the Company can meet its obligations going forward.³⁰

Xcel argued that the Department's characterizations of a prepayment were incorrect, as 1) prepayments are not exclusively short-term assets, 2) its NSPM Plan prepaid pension asset does have an amortization schedule, which would be charged to customers over the next 15 to 20 years based on ACM amortization requirements, and 3) the absence of a fixed amortization schedule does not disqualify an item from being treated as a prepayment.

Xcel contended that the July 17, 2006 FERC letter did not address whether a prepaid pension asset is a prepayment, acknowledged that there is not a specific FERC account for prepaid pension costs, and was dated prior to PPA reforms that required Xcel to make contributions to the pension trust.

Regarding uncertain economic and demographic assumptions, Xcel indicated that the components of the prepaid pension asset are known and provided in Schedule 14,³¹ and the uncertainty is no different than any forecasting performed for any number of other costs included in the test year.

Electric Service in the State of Minnesota, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 20. (May 8, 2015)

²⁸ Ex. DOC-___, TMM-D-10 (Myers Direct).

²⁹ Ex. Xcel-19 at 38, and Schedule 4 (Halama Rebuttal).

³⁰ In addition, prepayments lead to lower future payments and hence lower expenses going forward.

³¹ Ex. Xcel-57 at Schedule 14 (Schrubbe Direct).

Regarding the determination of a “prefunding obligation” rather than an “investment”, Xcel argued that if not for funding the pension trust, these funds could be retained by investors and invested elsewhere, or allocated to other corporate assets that earn a return. Accordingly, investors are entitled to be compensated for the loss of alternative options for deploying investment dollars in a productive manner.

Regarding tax deductions, Xcel argued that just because NSPM deducted pension contributions on its tax return, it does not mean that the Company does not deserve to earn a return on the pension asset, or that it has been made whole. Additionally, tax deductions do not reduce the pension asset, rather, the prepaid pension asset is reduced as pension expense is recorded. Xcel contended that if the Department’s logic were accepted, many routine items such as working capital or regulated assets that generate tax deductions would be excluded. Yet regulators have consistently allowed inclusion because they reflect capital supplied by investors.

Xcel noted that for book purposes, pensions are expensed over the employee’s service life, and for tax purposes, the Internal Revenue Code allows deduction of pension expense as cash is paid to the pension trust. As Xcel has been allowed a deduction for tax purposes sooner than what has been recognized for book purposes, the Company indicated that these accelerated tax deductions are a benefit to customers by reducing rate base.

Xcel argued that it is a longstanding principle of ratemaking that utilities are entitled to an opportunity to earn a reasonable return on investments made for the benefit of customers,³² and because the contributions to the pension fund provide a direct benefit to customers, the Company is entitled to earn a reasonable return on its investment.

Xcel opposed the Department’s alternative recommendation for a 20 year amortization period for three reasons. First, aside from citing one case in which the Commission approved the use of the 20 year amortization period for unrecognized pension costs, the Department provided no further justification. Second, it does not allow Xcel to earn on the full prepaid pension asset, but only applied to incremental changes in the asset since 2010. Third, the recommendation would require 400 different calculations, given there are 20 years of incremental changes being amortized over 20 years.

While Xcel argued that the correct treatment of the prepaid pension asset was inclusion in the rate base, the Company proposed straight-line amortization as an alternative, with the results displayed in Table 6 below.

³² *Bluefield Water Works & Improvement Co. v. Pub. Serv. Comm’n*, 262 U.S. 679, 692 (“A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public . . .”).

Table 6 - Amortization of Prepaid Pension Asset Balance³³

MN Electric 13 Month Average 2025 TY	\$147,783,077
Annual Amortization (10 years)	\$14,778,308
Annual Amortization (15 years)	\$9,852,205
Annual Amortization (20 years)	\$7,389,154

Xcel contended that the straight-line depreciation is a simple calculation that is updated in each rate case, would apply to the entire prepaid pension asset, and has been the historic treatment of the prepaid pension asset for Xcel's Public Service Company of Colorado utility. Additionally, Xcel noted this approach could retire the existing prepaid pension asset more quickly, thus shorten the time frame to earn a return.

Xcel indicated that the goal of the alternative approach is acceleration of the recognition of prepaid pension cost in order to eliminate the asset earlier, which would reduce the total returns that Xcel would earn (and customers pay) on the asset. However, Xcel noted that shortening the life of the asset would increase the total test year costs – and therefore costs to customers – over the amortization period.

5. Department of Commerce – Surrebuttal

The Department noted that estimating future pension liability and associated pension expense involves many factors³⁴ including mortality rates, expected future market returns, expected term of the pension benefit, discount rates and inflation, among other factors.³⁵ As such, this uncertainty differentiates prepaid pension assets apart from traditional items included in rate base like plant, Account 165 prepayments, and other working capital items, which have a known and fully paid upfront cost.

Additionally, Xcel did not propose or commit to the rate treatment of pension trust funds once the obligation is settled, nor commit to refund excess pension funds collected in rates that were not necessary to satisfy the pension obligation. Instead, Xcel acknowledged that any excess pension trust assets remaining after satisfying all benefits may revert back to the Company subject to an excise tax,³⁶ even though it appeared Xcel had no immediate plans to terminate the pension trust.

The Department contended that by potentially allowing Xcel to earn a rate base return on an amount that will revert back to the Company, while also retaining the market returns earned in the trust is not in the public interest. Rather, the ratemaking treatment of the asset should be focused on the cumulative amount of qualified pension contributions made above the

³³ Ex. Xcel-58, at 30. (Schrubbe Rebuttal)

³⁴ Ex. DOC-11, SDH-S-2 at 182-193. (Hunt Surrebuttal)

³⁵ Also note that pension expense is generally determined by an accredited actuary who determines the proper assumptions and values that will be used in the pension expense computation.

³⁶ Ex. DOC-11, SDH-S-3 (Responses to DOC IR's No. 3113 and 3114). (Hunt Surrebuttal)

cumulative amount of qualified pension expense, the characteristics of pension funding, and the rate treatment on the settlement of pension liability.

Additionally, the Department argued that the measure of any customer benefit on the prepaid pension asset cannot be fully measured using the expected market returns alone and must recognize that the impact of actual market returns (positive or negative) could increase or decrease future pension expense to customers.

The Department recommended that NSPM recover a return at a rate not exceeding the cost of long-term debt on the net prepaid pension asset average balance of \$106.3 million for the 2025 Test Year and \$100.3 million for the 2026 Test Year.³⁷ By using the cost of long-term debt, NSPM can earn a return on the prepaid pension asset, but not profit on timing differences between funding and recoveries that it can control, within limits. Additionally, NSPM would not be rewarded or motivated to contribute excessive funds to the pension trust above the minimum necessary threshold, while recognizing that the prepaid pension asset is long-term in nature. The Department also indicated that retiree medical and post-employment benefits³⁸ are currently assigned as non-plant liabilities, and should also be assigned the long-term debt rate for consistency. At the same time, the Department also did not object to use of the authorized short-term debt rate.

The Department noted the net average rate base for prepaid pension asset, retiree medical and post-employment benefits liabilities is \$90.2 million for 2025 and \$84.2 million for 2026. The resulting recommendation of using the 6.3% long-term debt rate instead of the proposed 10.6% return on rate base would result in a downward adjustment of \$3.9 million for 2025 and \$3.6 million for 2026.³⁹

The Department did not believe its recommendation would run afoul of the Minnesota COA decision, rather, the COA directive was for the Commission to make a more reasoned decision on whether any of Xcel's prepaid pension asset should be included in rate base and, if so, the value of that asset for ratemaking purposes.

Additionally, the Department indicated that the prepaid pension asset is an accumulated balance that tracks the differences between funds transferred to the pension trust and the Company's pension expense. As such, the prepaid pension asset should be treated as a tracker mechanism and exclude an equity return. The Department argued that using Xcel's long-term debt cost is appropriate because it matches the long-term nature of the under or over recoveries that are associated with the Company's pension funding and pension expense.

With regard to Xcel's alternative proposal to amortize recovery, the Department was not supportive, indicating that Xcel's forecasted pension fund contributions are less than pension

³⁷ Ex. Xcel-57, Table 15 and Schedule 13 (Schrubbe Direct).

³⁸ See Ex. Xcel-57 at Table 15 (Schrubbe Direct) for 2025 amount, and Xcel Initial Filing, Volume 4 --- MYRP Workpapers, III. P2-1, at 2-4 for 2026 amount.

³⁹ Ex. DOC-11, SDH-S-6. (Hunt Surrebuttal)

expense, resulting in reductions of the asset from \$192 million at the beginning of 2025 to \$171 million by the end of 2026.

6. Initial Briefs

Xcel argued that the COA's decision indicated that the prepaid pension asset should earn a return so long as the asset consists of shareholder derived funds.⁴⁰ Xcel reaffirmed this to be the case, and that the prepaid plan remains underfunded.

Xcel accepted the Department's surrebuttal adjustment of \$3.9 million for 2025 and \$3.6 million as a compromise on the prepaid pension asset and prepaid retiree medical and other post-employment benefit liabilities. Xcel noted that the agreement is solely for this individual proceeding, and not as precedent or agreeing to any underlying principle.

The Department indicated that Xcel is entitled to a return on the value of the prepaid pension asset, but the issue at hand is the value of Xcel's interest in that asset. The Department contended that Xcel has only a limited interest in pension trust property, as funds are held "separate and apart" from employer assets, used only for beneficiaries, and only accessible to Xcel after satisfying liabilities to plan beneficiaries.

As Xcel agreed it was not a beneficiary,⁴¹ the Department argued it held no equitable title in the trust property, and thus is not a trustee.⁴² As Xcel's interest is limited to any residual assets at termination, it is, at most, a contingent revisionary interest,⁴³ or otherwise nominal or of no ascertainable value unless the interest will be realized soon.⁴⁴ The Department recommended denial of any return on the prepaid pension asset.

⁴⁰ See *In re Application by N. States Power Co. d/b/a Xcel Energy for Auth. to Increase Rates for Elec. Serv. in Minn.*, No. A23-1672, 2025 WL 249995, at *8-10 (Minn. Ct. App. Jan. 21, 2025).

⁴¹ Ex. DOC-11, SDH-S-4 at 2 (Hunt Surrebuttal).

⁴² *Sec. Bank & Tr. Co.*, 916 N.W.2d at 501.

⁴³ Restatement (Third) of Property § 25.2 (2011) ("A future interest is either a reversion or a remainder. A future interest is a reversion if it was retained by the transferor. A future interest is a remainder if it was created in a transferee.").

⁴⁴ 28 Am. Jur. 2d Estates § 189 (2020) ("Generally, a possibility of reverter has no ascertainable value when the event upon which the possessory estate in fee simple defeasible will end is not likely to occur in the near future."); Restatement (First) of Property § 53 (1936) (treating the owner of an estate in fee simple defeasible as identical with that of an owner of a estate in fee simple absolute for purposes of eminent domain); *see also United States v. Certain Land in Cook Cnty., State of Minn.*, 248 F. Supp. 681, 682–83 (D. Minn. 1965) (explain that the owner of reversionary interest is ordinarily only entitled to "nominal compensation" when that interest is extinguished); *State by Mondale v. Indep. Sch. Dist. No. 31*, 123 N.W.2d 121, 129–30 (Minn. 1963) (holding that "the owner of a possibility of a reverter" is typically only entitled to nominal compensation upon being extinguished except where abandonment of the current use is imminent or would have greater market value if devoted to another use); *Leeco Gas & Oil Co. v. Nueces Cnty.*, 736 S.W.2d 629, 630–31 (Tex. 1987) (explain that "a mere possibility of reverter has no ascertainable value when the event upon which the possessory estate in fee simple defeasible is to end is not probable within a reasonably short period of time"); *6810 S. Hazel St. LLC v. Jefferson Hosp.*

Alternatively, the Department reaffirmed its recommendation to limit Xcel’s return on prepaid pension to the cost of long-term debt, as limited recovery would allow Xcel to recover its cost of service, and discourage excess contributions above the minimum necessary threshold required by ERISA.⁴⁵ The Department compared its recommended amounts to Xcel’s in Table 7 below.

Table 7 – Department and Xcel’s Prepaid Pension Recommendation⁴⁶

	2025	2026
Xcel Proposed Recovery	\$9,568,354	\$9,076,936
Department Recommendation	\$0 to \$5,708,106	\$0 to \$5,446,161

7. Reply Briefs

Xcel argued that the Department confused the pension trust balance with the prepaid pension asset, which is a regulatory asset of cumulative shareholder contributions to the pension fund that exceed pension expense – not the fund itself. Xcel reiterated of seeking a return on the cumulative contributions to the pension fund that exceed the cumulative pension expense paid by customers.

Xcel contended that the Department relied almost entirely on law and treatises regarding property interests in pension trusts, which have no applicability because Xcel is not seeking recovery of the pension fund amounts or the principal balance of the prepaid pension asset.

As Xcel manages the trust, the trust exists precisely to serve the Company’s employees and customers, and its existence is not determinative of whether a utility is entitled to a return on funds contributed. Xcel argued that it is not the legal form of the asset but whether it is service producing that matters for cost recovery under Hope and Bluefield.⁴⁷

The Company concluded that the prepaid pension asset is a shareholder funded service-producing asset that benefits customers and employees, and therefore belongs in rate base. However, Xcel reiterated its willingness to accept the Department’s surrebuttal recommendation to apply a rate of return at its cost of long-term debt to the prepaid pension asset and the associated FAS 106 and FAS 112 accrued liabilities in this case only.

The Department argued that when Xcel caveated its alternative position as “solely for purposes of this individual proceeding, and not as precedent or agreeing to any underlying principle”, it

Ass’n Inc., No. 5:19-CV-00322-LPR, 2020 WL 7028704, at *2 (E.D. Ark. Nov. 30, 2020) (explaining that the ascertainable value of a reverter interest is generally nominal with limited exceptions)

⁴⁵ Ex. DOC-11 at 8 (Hunt Surrebuttal).

⁴⁶ Department Initial Brief at 65.

⁴⁷ See *Fed. Power Comm’n v. Hope Nat. Gas Co.*, 320 U.S. 591 (1944); *Bluefield Water Works & Improvement Co. v. Pub. Serv. Comm’n*, 262 U.S. 679 (1923).

unilaterally abandoned a position set forth in testimony, and thus does not make it a settlement.

Additionally, the Department noted that Xcel's shareholders are residual claimants, and receive what is left after the corporation pays fixed claimants in order of priority when the board chooses to make a distribution.⁴⁸ Thus, pension trust contributions are not funded by issuing new debt or equity, but amount to a possibly foregone shareholder distribution.

The Department argued that shareholders are not entitled to a return on an asset exceeding the value of Xcel's interest in that asset, which is of minimal or no value. However, the Department reiterated that if the Commission chose to permit Xcel a return, the recovery should be no more than \$5.7 million in 2025 and \$5.4 million in 2026.

8. ALJ Report

The ALJ recommended the Commission approve a return on Xcel's prepaid pension asset, set at Xcel's cost of long-term debt.

The ALJ noted in his findings:

360. Notwithstanding distinctions between the prepaid pension asset and many other rate base assets, the prepaid pension asset is of a capital nature. It comprises only shareholder funds. Funding the asset requires utility shareholders to expend capital for a benefit that will not accrue until a future date, thereby forgoing other potential uses for those funds. Customers are an eventual beneficiary of the benefit of these funds through reduced future pension expenses.

361. The Company is entitled to earn a return of some kind on the prepaid pension asset.

362. The Department argues that, if a return is authorized, it should be limited to the Company's cost of long-term debt, arguing that such a limitation would still exceed the value of Xcel's proprietary interest in the prepaid pension asset and discourage the Company from making excessive contributions.

363. The Company maintains that the WACC is the appropriate return because the prepaid pension asset is financed with a mix of debt and equity.

364. Notwithstanding the Company's position, Xcel indicated that it would be willing to accept, for the purposes of this proceeding, the Department's alternative position to limit the return on the prepaid pension asset to the Company's cost of long-term debt.

⁴⁸ Minn. Stat. § 302A.551, subd. 4; *see also* *McRitchie v. Zuckerberg*, 315 A.3d 518, 547 (Del. Ch. 2024).

365. Using the cost of long-term debt for the prepaid pension asset's return, especially in light of the Company's agreement, would fairly balance the parties' concerns on this issue. This outcome compensates shareholders for their contribution to the prepaid pension asset while also mitigating any concerns about incentives for overfunding the pension trust and recognizing the distinction between the prepaid pension asset and more traditional rate base items.

366. The Commission should approve a return on the Company's prepaid pension asset, set at Xcel's cost of long-term debt.

9. Exceptions to ALJ Report

a. Xcel Energy

Xcel noted that no party presented evidence or testimony disputing that the prepaid pension asset is entirely shareholder funded, and reiterated that the pension trust is currently underfunded. Therefore, Xcel is not asking for a financial windfall, but for investors to be compensated for the time value of invested capital.

In determining that Xcel's prepaid pension asset is an expense of a capital nature under Minn. Stat. § 216B.16, subd. 6, Xcel argued that the Minnesota COA expressly rejected that the prepaid pension asset "is distinct from other assets included in rate base." Therefore, to reject a full rate of return would run counter to *Hope and Bluefield* in stating that a utility is entitled to a reasonable opportunity to earn its authorized rate of return on assets used to serve customers.⁴⁹

Additionally, Xcel argued that Minn. Stat. § 216B.16, subd. 6 does not provide for different rates of return for different rate base assets, and a fair rate of return should be "equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding, risks and uncertainties."⁵⁰

Xcel reiterated that, for this rate case only, it did not oppose a return equivalent to the cost of long-term debt rather than the full authorized rate of return. However, Xcel argued that the ALJ's finding about balancing parties' concerns is unsupported, and that the Company should earn a return equal to the cost of long-term debt, rather than the full WACC, as Xcel agreed to this outcome.

⁴⁹ *Hope*, 320 U.S. at 603; *Bluefield*, 262 U.S. at 692.

⁵⁰ *Bluefield Water Works & Improvement Co. v. Pub. Serv. Comm'n*, 262 U.S. 679, 692 (1923); see also *Fed. Power Comm'n v. Hope Nat. Gas Co.*, 320 U.S. 591, 603 (1944) ("[T]he return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks."); *Minnegasco v. Minnesota Public Utilities Commission*, 549 N.W.2d 904, 908 (Minn. 1996) ("In order to establish 'just and reasonable' retail rates, the MPUC must consider the right of the utility and its investors to a reasonable return, while at the same time establishing a rate for consumers which reflects the cost of service rendered plus a 'reasonable' profit for the utility.").

b. Department

The Department argued that if the Commission created a regulatory asset, it should restrict the asset's dimensions to Xcel's real-world property interest in the pension trust. Given Xcel's property interest is weaker than many future estate holders, the Department contended that Xcel should not claim a regulatory asset based on property it does not own, and from which it may never benefit. Further, Xcel has only a contingent reversionary interest in the prepaid pension asset with only nominal value as a matter of law.

Additionally, the Department indicated that in Minnesota Power and Xcel's appeals, the COA instructed the Commission to accept that the prepaid pension can be a capital asset under Minn. Stat. § 216B.16, subd. 6. However, the asset's exact dimensions and Xcel's interest in the asset required "due consideration."

The Department proposed the following modifications to the ALJ's findings.

347. ~~The Xcel claims that the~~ prepaid pension asset provides benefit to customers by enhancing the Company's ability to attract and retain employees. The value of the prepaid pension asset has no bearing on the benefits provided to beneficiaries. Xcel's obligations to beneficiaries are set forth in the pension plan Documents and pension trust agreement. The Employee Retirement Income Security Act ("ERISA") and federal tax law govern Xcel's obligations. Thus, if Xcel offers defined benefit retirement benefits, then it must comply with these requirements regardless of the prepaid pension asset's size or ratemaking treatment.

348. ~~The prepaid pension asset also helps the Company transition employees into retirement to manage its workforce, knowledge transfer, training, and succession planning.~~

350. Except under a few limited circumstances, pension contributions are legally irrevocable once placed in the pension trust, meaning they can only be used to fund the retirement benefits to employees who serve customers. If not for funding the pension trust, these funds could be retained by investors, invested elsewhere, or allocated to other assets that earn a return.

357. In support of this argument, the Department characterizes Xcel's interest in the prepaid pension asset as a contingent reversionary interest that ~~Xcel~~ has, at most, a nominal ~~monetary present interest in value~~. The Department cites a variety of cases and secondary sources addressing property law to advance this argument.

357a. In giving "due consideration," the Commission must consider the nature and value of Xcel's property interest. The following reasons establish that Xcel has only a contingent reversionary interest:

- Reflecting ERISA requirements, both of Xcel's pension trust agreements require that pension trust funds be held "separate and apart" from employer assets and prohibit their use for "purposes other than for the exclusive benefit of Beneficiaries."
- Xcel may only access residual pension trust funds after satisfying liabilities to plan beneficiaries. Given these limitations, Xcel is not a beneficiary. Because Xcel is not a beneficiary, the Department asserts, Xcel holds no equitable title in the trust property.
- Xcel does not hold legal title to the trust property because it is not a trustee.

~~358. It is not necessary to characterize Xcel's proprietary interest in any residual funds from pension trust property or to quantify that interest in order to resolve this dispute. The question before the Commission is not what right Xcel shareholders have to the funds in the pension trust or in what amount. Rather, the question is whether the Company is entitled to earn a return on the trust to compensate it for the cumulative investor contributions necessary to fund the prepaid pension asset.~~

358. Xcel is only entitled to a return commensurate with its property interest. As a matter of law, reversionary interests have only have nominal and often no ascertainable value, even when extinguished, unless the interest will be realized soon. Xcel, however, is unlikely to realize this interest soon.

359. Applying a rate of return to an asset with nominal or no ascertainable value produces a negligible revenue requirement adjustment. Given this mathematical fact, the Commission should grant Xcel a return on \$1,000 of rate base. This amount both reflects the minimum practical rate adjustment (anything less would round to \$0.00) and acknowledges that Xcel has some future possessory interest.

362. The Department argues that, if a return is authorized, it should be limited to the Company's cost of long-term debt, arguing that such a limitation would still exceed the value of Xcel's proprietary interest in the prepaid pension asset and discourage the Company from making excessive contributions.

363. The Company maintains that the WACC is the appropriate return because the prepaid pension asset is financed with a mix of debt and equity.

364. Notwithstanding the Company's position, Xcel indicated that it would be willing to accept, for the purposes of this proceeding, the Department's alternative position to limit the return on the prepaid pension asset to the Company's cost of long-term debt.

365. Using the cost of long-term debt for the prepaid pension asset's return, especially in light of the Company's agreement, would fairly balance the parties' concerns on this issue. This outcome compensates shareholders for their

contribution to the prepaid pension asset while also mitigating any concerns about incentives for overfunding the pension trust and recognizing the distinction between the prepaid pension asset and more traditional rate base items.

366. The Commission should approve a return on the Company's prepaid pension asset, set at Xcel's cost of long-term debt.

c. XLI

XLI noted that the ALJ's finding of earning a return on the prepaid pension asset did not acknowledge the open issue before the Commission in Xcel's last rate case. Accordingly, XLI argued that Xcel should not be permitted to utilize this rate case to receive a ruling on the issue of the prepaid pension asset in rate base, while the remand proceedings remain ongoing and while the Company has continually failed to demonstrate that shareholders alone fund its prepaid pension asset (a prerequisite for recovery).

At the very least, XLI contended that the ALJ Report should acknowledge the ongoing issue from NSP's last rate case, and that any decision made there should be carried over and apply to the instant rate case.

XLI proposed the following modifications to the ALJ's findings.

359. The Commission is required to give "due consideration . . . to other expenses of a capital nature" in determining the Company's rate base on which it may earn a fair return. This "due consideration" does not, however, absolve the utility of satisfying its two pronged burden of proof of first, establishing the amount of a given cost as a judicial fact, and second, establish that it is just and reasonable for ratepayers (as opposed to the Company's shareholders) to bear those costs.

361. Whether ~~t~~The Company is entitled to earn a return ~~of some kind~~ on the prepaid pension asset is an open issue in the Company's last rate case, Docket No. 21-630, and the decision made there will be carried over and apply here. The Company is entitled to earn a return of some kind on the prepaid pension asset.

~~365. Using the cost of long-term debt for the prepaid pension asset's return, especially in light of the Company's agreement, would fairly balance the parties' concerns on this issue. This outcome compensates shareholders for their contribution to the prepaid pension asset while also mitigating any concerns about incentives for overfunding the pension trust and recognizing the distinction between the prepaid pension asset and more traditional rate base items.~~

366. The Commission should ensure its decision on ~~approve~~ whether the Company can earn a return on the Company's prepaid pension asset, ~~set at Xcel's cost of long-term debt~~ conforms to the decision made in the Company's last rate case, Docket No. 21-630.

10. Staff Analysis

In previous rate cases,⁵¹ the Commission rejected proposals to earn a return on the prepaid pension asset because a utility must demonstrate that, among other requirements, that the prepaid pension asset was funded by investor capital rather than pension trust returns, or the funding recovered from ratepayers.

On January 21, 2025, the Minnesota Court of Appeals issued an opinion that reversed the Commission's decision in its July 17, 2023 order regarding the prepaid pension asset in Xcel Energy's 2021 general rate case.⁵² The court remanded these issues for further proceedings, finding that the Commission's findings to exclude the prepaid pension asset from rate base were insufficient, and required revisiting the issue. As of this writing, those proceedings are ongoing in Docket E-002/GR-21-630, with a scheduled Commission agenda meeting in the near future.

The Commission may acknowledge the ongoing remand, preserve flexibility for whatever outcome emerges from that proceeding, and evaluate the prepaid pension asset in this rate case based on the evidence presented in the record. This approach allows the Commission to maintain procedural integrity, avoid prejudging the remand, and ensure that any decision in this rate case is independently supported by substantial evidence.

Although the Court of Appeals reversed and remanded, nothing in the opinion alters the fundamental principle that the utility bears the burden of proof in rate cases. The Commission has consistently emphasized that it is the utility's responsibility to demonstrate that any proposed rate-base item, including a prepaid pension asset, is properly supported, prudently incurred, and funded in a manner that justifies recovery from customers. The remand simply requires the Commission to articulate its reasoning with greater clarity—not to relax the evidentiary burden that Xcel must meet.

Staff notes that, given the ongoing remand in Docket No. E-002/GR-21-630, the Commission may wish to exclude the proposed prepaid pension asset from the 2025 and 2026 test years, subject to the outcome of the Commission's decision in the remand proceeding arising from the Minnesota Court of Appeals' order in Docket No. E-002/GR-21-630.

11. Decision Options

1005. Approve Xcel's request to earn a return on the prepaid pension asset, based on the Company's WACC. (Xcel Energy)

1006. Deny Xcel's request to earn a return on the prepaid pension asset. (Department)

⁵¹ See Docket No's E-002/GR-21-630, E-015/GR-21-335, E-015/GR-16-664, and E-017/GR-15-1033.

⁵² *In the Matter of the Application of Northern States Power Company, dba Xcel Energy, for Authority to Increase Rates for Electric Service in the State of Minnesota*, Docket No. E-002/GR-21-630, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 155, Ordering Paragraph 11. (July 17, 2023)

1007. Approve Xcel's request to earn a return on the prepaid pension asset based on the Company's long-term debt rate. (Xcel and Department alternative, ALJ)
1008. Defer a decision on the prepaid pension asset matter in the current proceeding, as it remains pending from Xcel's prior rate case. The final determination resulting from the ongoing remand proceedings shall apply to the treatment of the prepaid pension asset in this proceeding. (XLI)
1009. Defer a decision on the prepaid pension asset issue. After the Commission issues an order on the prepaid pension asset issue in Docket Nos. E-002/GR-21-630 and G-002/GR-23-413, the Executive Secretary will issue a notice of comment period in this Docket regarding how the decision in the other dockets should apply to the record in this proceeding. The Commission will make a final decision on this issue a future agenda meeting. (Staff Modification of XLI)

C. Riverside Generating Unit

1. Issue

Should the Commission approve Xcel's proposed Riverside Generating Unit expenses?

2. Department of Commerce – Direct

The Department indicated that on April 15, 2025, Xcel's Riverside steam turbine generator experienced a mechanical failure and tripped the unit.

In response to a Department information request, Xcel indicated of supplying a root cause analysis of the incident when it was expected to be completed in July 2025, but had not done so. Additionally, Xcel did not expect the unit to be back online before the summer of 2026.⁵³

The Department recommended that Xcel remove the Riverside unit from the 2025 and 2026 test years for the period it is not expected to be used and useful - May 1, 2025 through May 30, 2026, which reduced the revenue requirement by \$18.0 million for 2025 and \$12.6 million for 2026.

The Department argued that only utility property that is 'used and useful' should be included in rate base, of which 'used and useful' is defined as (1) in service, and (2) reasonably necessary to the efficient and reliable provision of utility service.⁵⁴ The Department asserted that the

⁵³ Ex. DOC-1, MAJ-D-11, (Johnson Direct) (Xcel's Response to DOC IR No. 1159).

⁵⁴ *In the Matter of the Application of Northern States Power Company for Authority to Increase Rates for Electric Service in the State of Minnesota*, Docket No. E-002/GR-12- 961, FINDINGS OF FACT, CONCLUSIONS, & ORDER at 46 (Sept. 3, 2013) (accepting the ALJ report except as expressly modified); *In the Matter of the Application of Northern States Power Company for Authority to Increase Rates for Electric Service in the State of Minnesota*, Docket No. E-002/GR-12-961, FINDINGS OF FACT,

Riverside unit should not be returned to rate base until it is “in service” again, consistent with past Commission guidance.

The Department cited two previous rate cases in which the Commission approved the removal of plants determined not to be used and useful. The first was Minnesota Power’s 2021 rate case, in which Taconite Harbor Energy Center’s costs were removed due to the property not being in service, nor found to be reasonably necessary to the efficient and reliable provision of utility service.⁵⁵ The second was Xcel’s 2012 rate case, in which Sherco 3’s costs were removed with exception to property taxes, due to the unit being offline for most of the test year.⁵⁶

In response to the Department’s information request, Xcel asserted that any Riverside test year adjustment would be inappropriate for several reasons. First, the unit was used and useful for part of the 2025 test year, and will be returned to service for a majority of the 2026 test year. Second, the facility was included in the 2025-2026 MISO capacity auction and generated substantial capacity revenues. Third, labor O&M costs are still incurring as the displaced workers are working to return the plant to service for the benefit of customers.⁵⁷

The Department argued that while Xcel received MISO capacity revenues from June 2025 – May 2026, future capacity revenues will be negatively impacted due to the outage. Additionally, Xcel’s ratepayers will get the 2025-2026 capacity revenues through a capacity tracker established in Xcel’s 2021 rate case.

The Department noted that Xcel’s argument for including labor O&M expense does not address whether a plant is actually in service, and the expenses are likely to be capitalized and included in the next rate case if the unit is used and useful at that time.

3. Xcel Energy – Rebuttal

Xcel noted that the Riverside unit will not be online prior to June 1, 2026. However, it is forecasted that the unit would generate \$25.8 million in MISO capacity revenues from April 2025 through May 2026. While exact figures for the 2026-2027 Planning Resource Auction are not known, Xcel indicated of being able to include some Riverside capacity at that time.

CONCLUSIONS, & RECOMMENDATION at 23 (July 3, 2013) (citing Senior Citizens Coalition of Northern Minnesota v. MPUC, 355 N.W.2d 295 (Minn. 1984)).

⁵⁵ *In the Matter of the Application of Minnesota Power for Authority to Increase Rates for Electric Service in Minnesota*, Docket No. E-015/GR-21-335, FINDINGS OF FACT, CONCLUSIONS, & ORDER at 15-16 (Feb. 28, 2023).

⁵⁶ *In the Matter of the Application of Northern States Power Company for Authority to Increase Rates for Electric Service in the State of Minnesota*, Docket No. E-015/GR-12-961, FINDINGS OF FACT, CONCLUSIONS, & ORDER at 20-23 (Sept. 3, 2013).

⁵⁷ Ex. DOC-1, MAJ-D-11, (Johnson Direct) Xcel’s Response to DOC IR No. 1159.

Xcel asserted that denial of plant recovery, in addition to crediting customers with the associated MISO capacity revenues the Company receives during that timeframe does not align with ratemaking principles.

Xcel reaffirmed their original recommendation to include both costs and revenues associated with the Riverside plant. However, if the Commission disallowed recovery of the plant, Xcel argued that it should be allowed to retain all capacity revenues due during the disallowance time period, and not flow them through the capacity tracker approved in the previous rate case.

4. Department of Commerce – Rebuttal

The Department noted that Xcel provided its root cause analysis report on September 19, 2025.⁵⁸ The report indicated that the outage was due to a failed retaining ring that occurred because of a manufacturing flaw that was present throughout the life of the ring.

The Department recommended that the Commission refer this matter to a contested hearing and require the Department to hire an engineering expert to review the report's analysis and conclusions regarding the Riverside Outage to determine 1) whether Xcel was prudent in its actions, 2) the impact on energy replacements costs in fuel clause filings, and 3) the determination and treatment of future lost planning resource auction capacity revenues via the capacity tracker due to the outage.

The Department noted that, in Xcel's 2012 rate case,⁵⁹ the Commission allowed Xcel to include property tax expenses because these taxes are unavoidable and occur whether or not the plant is operating. Additionally, the Commission allowed Xcel to defer its related depreciation expense for future recovery, stating that it appropriately relieves ratepayers from bearing the costs of a generating unit during a period when they derived no benefit from it.⁶⁰

Consistent with the Commission's order in the Sherco 3 proceeding, the Department recommended that Xcel remove all Riverside costs from the 2025 and 2026 test years for the period it is not expected to be used and useful – May 1, 2025 through May 30, 2026, with the exception of property taxes and depreciation expense.

The Department's recommendation would reduce Xcel's proposed revenue requirement by \$9.9 million for 2025 and \$7.2 million for 2026, which reflects removal of O&M expenses other than property taxes and depreciation, as well as the return on rate base for Riverside during the expected outage period, when it is not used and useful.

⁵⁸ Docket No's. E-002/AA-24-63 and E-002/AA-25-63. ([Xcel's Root Cause Analysis Report](#))

⁵⁹ Docket No. E-002/GR-12-961.

⁶⁰ *In the Matter of the Application of Northern States Power Company for Authority to Increase Rates for Electric Service in the State of Minnesota*, Docket No. E-002/GR-12-961, FINDINGS OF FACT, CONCLUSIONS, & ORDER at 23 (Sept. 3, 2013).

5. Xcel – Initial and Reply Brief

Xcel cited *Senior Citizens Coalition of Northeastern Minnesota v. Minnesota Public Utilities Comm’n*, 355 N.W.2d 295, 300 (Minn. 1984), in which the Minnesota Supreme Court specifically found that a property need not be actually generating electricity to be “used and useful” under Minn. Stat. § 216B.16:

We think that the PUC erroneously applied the “used and useful” standard. The problem with the PUC’s reasoning is that it defined “used * * * in rendering service” to require that an item must actually generate, transmit or distribute electricity, or aid in doing so. We reject that definition as being overly technical and inflexible. As MPL points out, mandated pollution control facilities, which serve to preserve and protect the environment, are routinely considered “used and useful,” and thus included in a utility’s rate base, even though such devices do not produce or distribute electricity, or aid in doing so.

Xcel asserted that even during Riverside’s outage, it continued to benefit ratepayers by generating capacity payments in 2025-2026, unlike Sherco 3. Xcel argued that under Minnesota law, Riverside remains “used and useful.”

Xcel noted that the Riverside outage duration is longer than expected, but supported recovery of property taxes and depreciation during this period, consistent with the Commission’s treatment of the Sherco 3 outage. Additionally, Xcel deemed the Department’s request for a contested case as premature, noting that this issue can and should be addressed at a later date, after an appropriate notice and comment period.

6. Department of Commerce – Reply Brief

The Department argued that the MISO capacity revenues accrued when Riverside was still in service, and therefore were appropriately included in the test year. However, the “used and useful” standard does not consider whether utility property might have accrued capacity revenues before the property left service.

The Department contended that Xcel has a capacity revenue tracker that should be reconciled after completing a contested case where Xcel’s responsibility for the outage can be assessed.⁶¹ If Xcel is found to be imprudent, then ratepayers will be entitled to the capacity revenues as part of holding them harmless from the outage. If Xcel can demonstrate that its imprudence did not contribute to the outage, the Commission will need to decide whether to credit Xcel with the capacity revenues or a regulatory asset for the period where Riverside was not in rate base.

⁶¹ 2021 RATE CASE ORDER at 155 (adopting the ALJ report except as otherwise noted); *In The Matter of the Application of Northern States Power Company, d/b/a Xcel Energy, for Authority to Increase Rates for Electric Service in the State of Minnesota*, Docket No. E-002/GR-21-630, FINDINGS OF FACT, CONCLUSIONS OF LAW, & RECOMMENDATIONS ¶¶ 150–152 (Mar. 31, 2023). (Recommending adoption of a capacity revenues tracker) (2021 ALJ Rate Case Report); see also *In the Matter of Xcel Energy’s Petition for Approval of its 2024 Sales and Related Revenue Calculation*, Docket No. E-022/M-25-56, ORDER at 1 (July 1, 2025).

Because no evaluation has occurred yet, any decision about the treatment of capacity revenues is premature.

7. ALJ Report

The ALJ noted the following in his findings:

382. Senior Citizens is instructive. It is undisputed that, for the time period at issue, Riverside will not be in service. Thus, under the Supreme Court's standard, it is not used and useful.

383. Accordingly, Riverside should be removed from the Company's rate base from May 1, 2025 through May 30, 2026.

384. Xcel's argument that it would be inherently inequitable to deny the Company a return on Riverside while crediting ratepayers for capacity revenues carries intuitive appeal. That said, it is important to note that, while Xcel would not be earning a return on its investment in Riverside, customers would still be repaying that investment through depreciation expense during the period where Riverside is not in service under the Department's proposal. The record does not support a determination denying customers the benefit of Riverside's capacity revenues.

385. The disputed O&M expenses, however, are a different matter. Expenses are not rate base items and thus are appropriate for recovery if they are reasonably and prudently incurred, regardless of whether Riverside is used and useful during a test year.

386. Whether the O&M expenses were prudently incurred is an inquiry that should be informed by analysis of the cause of the outage and, specifically, whether Xcel acted prudently or imprudently.

387. Due to the timing of the filing of the Riverside Root Cause Report and Analysis, the record in this proceeding cannot support a determination about prudence or imprudence related to the Riverside outage.

388. Because the Company bears the burden to prove that expenses were reasonably and prudently incurred, the Commission should not allow recovery of the disputed O&M expenses at this time.

389. The Commission should instead authorize the Company to create a regulatory asset for the disputed O&M related to Riverside, subject to a determination on prudence by the Commission.

390. It would be premature to initiate a contested case to evaluate prudence at Riverside. The Commission should solicit comments from interested stakeholders as to the type and scope of any such proceeding, including whether a contested case is warranted. The Commission may also wish to use this proceeding for

further record development on the treatment of capacity revenues related to the Riverside outage.

8. Exceptions to ALJ Report

Xcel argued that Riverside was “used and useful,” citing its generation of nearly \$26 million in capacity revenues in the 2025-2026 capacity auction, the expectation that at least a portion of its capacity would be included in the 2026–2027 capacity auction, and the fact that the facility was operational for part of 2025 and is expected to return to service in 2026.⁶²

Additionally, Xcel contended that the generation of capacity revenues are directly tied to Riverside’s operation. Thus it is not equitable or supported by standard ratemaking principles to consider Riverside ineligible for rate base recovery, while also crediting customers with its generated capacity revenues.

Xcel agreed with the ALJ’s finding that, at a minimum, these expenses warranted establishment of a regulatory asset. However, the Company also agreed that initiating a contested case proceeding to evaluate prudence would be premature. Rather, Xcel recommended soliciting comments from parties on whether such a proceeding is warranted and, if so, the proper scope of that proceeding.

9. Staff Analysis

Staff notes that Xcel filed an update on Riverside in its annual FCA true up filing on February 27, 2026.⁶³ In that filing, Xcel noted of pursuing an insurance claim to cover the cost to replace the generator, as well as continuing to assess whether to file any other third-party claims. Additionally, Xcel provided a Trade Secret timeframe on the unit’s projected return to service.

If the Commission determines that Riverside is not used and useful, it may want to consider an updated timeframe and disallowance amount, based on the Trade Secret timeframe of return to service in Xcel’s FCA True Up filing.

10. Decision Options

Riverside Rate Base Treatment

1010 Approve Xcel’s request to include the Riverside plant in rate base for the 2025 Test Year and 2026 Plan Year. (Xcel Energy)

Or

1011 Remove the Riverside unit from the 2025 Test Year and 2026 Plan Year for the period it is not expected to be used and useful: May 1, 2025 – May 30, 2026. (ALJ,

⁶² ALJ Report ¶ 378. In contrast to Riverside, past generating units that have been removed from rate base in rate cases, such as Sherco 3, did not provide any service during the relevant test year.

⁶³ Docket No. E-002/AA-24-63.

Department)

Riverside O&M Expense

1012 Allow Xcel to continue to recover all O&M expenses associated with the Riverside unit during the outage period. (Xcel Energy)

Or

1013 Remove from Xcel's proposed revenue requirement all O&M expense associated with the Riverside unit, other than property taxes and depreciation. (Department, Xcel alternative)

Or

1014 Do not authorize recovery of Riverside's disputed O&M expenses at this time, but authorize Xcel to create a regulatory asset for these expenses subject to a future Commission determination of prudence. (ALJ)

Riverside Capacity Revenues

1015 Allow Xcel to retain all MISO capacity revenues due during the outage period, and not flow them through the capacity tracker approved in the previous rate case. (Xcel alternative if Riverside is removed from rate base)

Or

1016 Require Xcel to credit Riverside's MISO capacity revenues during the outage period through the capacity tracker. (ALJ)

Further Process on Riverside

[If the Commission adopts the ALJ's recommendation to allow Xcel to create a regulatory asset for Riverside O&M expenses subject to prudence review, the Commission may consider the following procedural options.]

1017 Refer the Riverside outage matter to the Court of Administrative Hearings for a contested case hearing to evaluate: (Department)

- A. whether Xcel was prudent in its actions and O&M costs associated with the Riverside outage were reasonably and prudently incurred,
- B. the impact on energy replacement costs in fuel clause filings, and
- C. the determination and treatment of future lost planning resource auction capacity revenues via the capacity tracker due to the outage.

Or

1018 Authorize the Executive Secretary to solicit comments from interested stakeholders as to the type and scope of a potential proceeding to evaluate the prudence of costs associated with the Riverside unit and whether a contested case

and further record development on the treatment of capacity revenues related to the Riverside outage is warranted. (Staff interpretation of ALJ)

Or

1019 Authorize the Executive Secretary to issue a notice of comment period regarding the prudence of O&M costs associated with the Riverside unit. (Staff interpretation of Xcel)

1020 Pursuant to Minn. Stat. § 216B.62, subd. 8, determine that it is necessary to conduct an investigation of public utility operations, practices, or policies requiring specialized technical professional investigative services for the inquiry, and request that the Commissioner of the Department of Commerce seek authority from the Commissioner of Management and Budget to incur costs for specialized services to hire an engineering expert to review the Riverside outage report's analysis and conclusions to determine 1) whether Xcel was prudent in its actions, 2) the impact on energy replacements costs in fuel clause filings, and 3) the determination and treatment of future lost planning resource auction capacity revenues via the capacity tracker due to the outage. (Department)

D. Sherco 3 Restoration Costs Not Covered by Insurance

1. Issue

Should the Commission allow Xcel Energy to continue to recover Sherco Unit 3 restorations cost from ratepayers?

2. Summary

On November 19, 2011 a catastrophic turbine explosion occurred at Xcel Energy's Sherco Unit 3 generating plant. In November 2013 Xcel, Southern Minnesota Municipal Power Agency (SMMPA), Sherco 3's co-owner, and their insurers initiated a lawsuit for damages associated the turbine failure and outage against Sherco 3's manufacturer General Electric Company (GE). In 2015 the Commission referred questions of Xcel's prudence in managing the circumstances surrounding the Sherco 3 outage and recoverability and ratemaking treatment of replacement power and additional fuel costs, to Annual Automatic Adjustment (AAA) Dockets. In 2018 Xcel filed a litigation update stating that it had reached a settlement with GE resulting in payment to Xcel, which would be credited to ratepayers, in exchange for dismissal of Xcel's claims against GE in the lawsuit. Following Xcel's settlement with GE, trail proceeded on Xcel's insurers' claims against GE, with GE asserting as a defense that Xcel's own negligence caused the loss. The Jury found that Xcel was negligent in its operation and maintenance of Sherco 3, and that this negligence was a direct cause of the loss. The Jury found Xcel 48% at fault and GE at 52% at fault. However, Xcel and its insurers did not plead a negligence claim against GE, and GE was not found liable on any claim. insurance covered the majority of restoration costs, but \$5.5

million in uninsured costs were not reimbursed. Those costs were placed in rate base in the Company's 2013 rate case⁶⁴ and were authorized for recovery at that time.

3. Office of Attorney General – Direct

The OAG recommended removing all remaining Sherco Unit 3 plant restoration costs from rate case that were not covered by insurance from 2025 Test Year of \$2.4 Million and 2026 Plan Year of \$2.1 million that is rate base. That would reduce the Company's revenue requirement by \$404,277 in 2025 and \$384,776 in 2026. The Commission determined that Xcel Energy failed to operate and maintain Sherco Unit 3 reasonably and prudently in a manner consistent with good utility practice, and that this failure contributed to catastrophic failure.⁶⁵ Since Xcel Energy was found to be imprudent in causing the restoration costs, those costs should not be passed on to the ratepayers.

4. Xcel Energy – Rebuttal

The Company argued that the Sherco Unit 3 restoration costs were included in the 2013 rate case and then reaffirmed in the Company's two subsequent rate cases. The Company further argued that reversing recovery now would amount to undoing a prior regulatory determination and retro actively changing the terms under which those costs were authorized.

5. Office of Attorney General – Surrebuttal

The OAG maintained its recommendation and argued against the Company's retroactive ratemaking argument as the investigation was not completed before the earlier rate case were decided. OAG recommended \$2.4 million be removed from 2025 Test Year rate base and \$2.1 million be removed from 2026 Plan Year rate base.

6. ALJ Report

The ALJ found that when the Commission allowed recovery of Sherco 3 restoration costs, it was before it was determined that Xcel Energy's operation of plant was not prudent. Restoration costs related to the event were imprudent. The ALJ Found:

402. Because imprudently incurred costs are not appropriate for rate recovery, the Commission should adopt the OAG's recommendation and remove the unrecovered Sherco 3 recovery costs from Xcel's rate base in both the 2025 test year and 2026 plan year.

⁶⁴ Docket No. 13 E002/GR-13-868

⁶⁵ MPUC Docket No. E-999/AA-13-599, ORDER ADOPTING ADMINISTRATIVE LAW JUDGE REPORT AS MODIFIED, REQUIRING REFUND OF CERTAIN DISALLOWED REPLACEMENT POWER COSTS, AND REQUIRING FURTHER ACTION at 3-4 (Dec. 24, 2024)

7. Staff Analysis

Staff has the impression this is a settled issue with the Commission following Docket No. E-999/AA-13-599 Order 2 that Xcel failed to operate and maintain Sherco 3 reasonably and prudently. With that any related costs should not be recovered from the ratepayers.

8. Decision Options

1021 Allow Xcel Energy to recover Sherco 3 restoration cost not covered by insurance. (Xcel Energy)

1022 Xcel Energy to remove \$2.4 million of rate base for Test Year 2025 and remove \$2.1 million of rate base for 2026 Plan Year that reflects Sherco Unit 3 restoration costs not covered by insurance. (OAG, ALJ)

E. Time-of-Use Rate Implementation Costs

1. Issue

Should the Commission approve Xcel's proposed Time-of-Use Rate Implementation expenses?

2. Xcel Energy – Supplemental Direct, Rebuttal, and Errata

In Supplemental Direct, Xcel indicated its plan to incorporate costs in the MYRP related to marketing, education, and outreach for time-of-use (TOU) rates as approved by the Commission.⁶⁶

In Rebuttal, Xcel proposed a capital cost adjustment related to the technical implementation of the residential TOU rate, beyond the O&M costs to implement the rate included in its initial filing. Xcel argued that the technical implementation plan development was completed after the Commission approved its TOU rate proposal, or after the rate case initial filing.

Xcel described the capital costs related to the technical implementation work as follows:

- Setting up new rates in the Customer Resource System, which is the Company's customer information system, and other integrated systems;
- Developing programs to support customers that elect to opt-in, transitioning customers from the current TOU pilot rate to the new TOU rate, and automation of meter exchanges for customers on a TOU rate;
- Implementing changes to allow participation by net-metered customers with rooftop solar, customers enrolled in the Saver's Switch program, and customers enrolled in Renewable*Connect;
- Developing necessary programs to support electric vehicle (EV) programs; and

⁶⁶ *In the Matter of the Petition of Xcel Energy for Approval of a Residential Time of Use Rate Design.* ORDER APPROVING REVISED OPT-IN PROPOSAL AND SETTING REPORTING REQUIREMENTS, at Ordering Paragraphs 11 and 12. Docket No. E-002/M-23-524. (May 15, 2025)

- Unit and user testing of all new programs.

Additionally, Xcel indicated a need to purchase software licenses to support new programs, as well as development costs for a new Rate Comparison Tool.

Altogether, the incremental implementation capital cost adjustment totaled \$2.8 million for the MN jurisdiction.⁶⁷

3. Department of Commerce – Surrebuttal

The Department agreed with Xcel’s proposed rebuttal adjustment.⁶⁸

4. OAG – Surrebuttal

The OAG noted that Xcel departed from its supplemental direct testimony description of including costs related to marketing, education, and outreach, by calling the proposed TOU-related adjustment as related to technical implementation in rebuttal. As of September 2025, Xcel had only spent \$0.1 million on these activities.⁶⁹

The OAG was unclear whether Xcel’s proposed rebuttal adjustment was fully incremental to the costs included in the rate case initial filing, and arose from the Commission’s TOU Order. The OAG contended that Xcel’s Rate Comparison Tool appeared to be in development prior to the TOU rate order and the initial rate case filing,⁷⁰ and Xcel did not break out the individual capital cost activities.

In response to an OAG information request, Xcel supplied a breakdown of individual costs for the 2025 Test Year and 2026 Plan Year, which are illustrated in Table 8 below.

Table 8 – Xcel’s Breakdown of Incremental Capital Costs⁷¹

Activity	2025	2026
Design and Requirements Definition	\$488,760	\$14,687
Development of Billing System Enhancements	\$137,831	\$1,240,477
Enablement of the Rate comparison calculations	\$0	\$81,900
Development of self-service rate comparison tool exercise	\$33,050	\$453,294
Software licenses for rate comparison calculations	\$0	\$668,500

⁶⁷ Ex. Xcel-19 at Schedule 3A, 3B at 4. (Halama Rebuttal)

⁶⁸ Ex. DOC-2 at 31-32 and Schedule 1. (Johnson Surrebuttal)

⁶⁹ Ex. OAG-4, Schedule KH-S-4 at 2 (Hinderlie Surrebuttal) (Xcel Response to OAG IR No. 1051).

⁷⁰ See *In the Matter of the Petition of Xcel Energy for Approval of a Residential Time of Use Rate Design*. Docket No. E-002/M-23-524, Xcel’s Supplemental TOU Proposal, at 17. (August 16, 2024)

⁷¹ Ex. OAG-4, Schedule KH-S-4 at 3 (Hinderlie Surrebuttal) (Xcel Response to OAG IR No. 1051).

While Xcel provided Rate Comparison Tool costs, it did not include requirements gathering for the billing system enhancement, which are shared between these activities. Xcel's currently forecasted costs in one FERC account for the Rate Comparison Tool are provided in Table 9 below.

Table 9 – Rate Comparison Tool Costs in FERC Account 303⁷²

Activity	2025	2026
Development of self-service rate comparison tool experience	\$33,050	\$453,294
Design and Requirements definition	\$138,760	\$14,687
Enablement of the Rate comparison calculations	\$0	\$81,900
Software licenses for rate comparison calculations	\$0	\$668,500
Total	\$171,810	\$1,218,381

The OAG contended that it is not clear whether Xcel's TOU-related capital costs will result in plant that is used and useful, as Xcel has not been able to adequately explain the Rate Comparison Tool in how it would be useful to its customers, and that potential design choices and features are "subject to change as development progresses."⁷³ Additionally, the OAG argued that the tool appeared to provide only estimates rather than actual bills based on actual usage information.⁷⁴

In the rate case, Xcel indicated that it had not incurred Rate Comparison Tool costs through September 2025, and it is still in the Design Phase as of October 2025.⁷⁵

The OAG indicated that it is impossible to evaluate the prudence or reasonableness of Xcel's proposed costs based on its generalized characterizations, and that it would not be just and reasonable for ratepayers to bear them.

The OAG recommended, at minimum, the Rate Comparison Tool costs of \$0.2 million for the 2025 Test Year, and \$1.2 million for 2026 Plan Year be disallowed.⁷⁶ As it is a capital project, the OAG argued that Xcel could request recovery in its next rate case if it can prove that the Rate Comparison Tool is used and useful in providing utility service.

Additionally, the OAG recommended that the remaining TOU-related capital costs of \$0.5 million for the 2025 Test Year, and \$1.2 million for 2026 Plan Year be disallowed.⁷⁷ The OAG argued that Xcel has not provided sufficient support for the costs, and they are different in nature and kind than what was identified in its supplemental direct testimony. Alternatively,

⁷² *Id.*

⁷³ Docket No. E-002/M-23-524, Xcel Energy Reply Comments at 5 (Oct. 17, 2025).

⁷⁴ Docket No. E-002/M-23-524, OAG-RUD and CUB Initial Comments at 3 (Oct. 7, 2025).

⁷⁵ Ex. OAG-4, Schedule KH-S-4 at 4 (Hinderlie Surrebuttal) (Xcel Response to OAG IR No. 1051).

⁷⁶ *Id.*, at 39.

⁷⁷ *Id.*, at 39.

the OAG contended that Xcel can petition for deferred accounting treatment of the costs in the TOU docket.

5. Initial Briefs

Xcel noted its August 2025 compliance filing in the TOU docket, which indicated that “final blueprinting for the rate implementation project will be completed over the next month,” and “[t]he Company intends to seek cost recovery of these implementation costs through base rates as a part of our current electric rate case.”⁷⁸

Additionally, in response to OAG discovery, Xcel verified and affirmed that the TOU rebuttal costs are not duplicative of any costs already included in rates or proposed for recovery in this case.⁷⁹

Xcel indicated that detailed planning and development of the capital budget for TOU rate implementation could not be completed until after the TOU Commission Order because the technical implementation work was dependent on what was approved with respect to rate designs, billing, and other requirements.

Xcel reaffirmed their original recommendation to recover the TOU implementation costs in this case. Alternatively, if the Commission does not approve recovery, Xcel argued for deferred accounting of TOU-rate implementation costs now, rather than having to petition for such treatment in a separate docket.

The OAG contended of a real risk that Xcel double counted nearly \$1.4 million of capital costs for development of its Rate Comparison Tool from its initial filing and rebuttal, and that the tool will not be used or useful in the provision of utility service. Also, Xcel did not provide adequate support for any of the alleged TOU-related capital expenses.

6. Reply Briefs

The OAG contended that at the January 8, 2026 hearing, the Commission rejected a decision option that would have approved Xcel’s TOU budget and adopted a decision option clarifying that it was not making a prudency determination on the Rate Comparison Tool.⁸⁰

Additionally, the Commission’s February 2026 Order stated that “the Commission notes that it is not making a prudency determination in this Docket regarding Xcel’s as-yet-unseen Rate Comparison Tool.”⁸¹

⁷⁸ *In the Matter of the Petition of Xcel Energy for Approval of Residential Time of Use Rate Design*, Docket No. E-002/M-23-524, Xcel Energy Compliance Filing at 26 (Aug. 14, 2025).

⁷⁹ Ex. OAG-4, Schedule 4 (Hinderlie Surrebuttal) (Xcel Energy Response to OAG IR 1051).

⁸⁰ Minnesota Public Utilities Commission Agenda Meeting of January 8, 2026 at 1:49:00 – 1:50:18, available at https://minnesotapuc.granicus.com/player/clip/2620?view_id=2&redirect=true (Jan. 8, 2026).

⁸¹ *In the Matter of the Petition of Xcel Energy for Approval of Residential Time of Use Rate Design*, Docket

The OAG argued that to grant deferred accounting in this rate case would be improper as there is no record to support it, and the Commission may only grant deferred accounting for “good cause shown,” such as when a utility incurs unforeseen and unusual expenses large enough to have a significant impact on the utility’s financial condition.⁸²

7. ALJ Report

The ALJ noted the following in his findings:

418. The Company has provided sufficient evidence, for all TOU capital costs except the Rate Comparison Tool, of the nature of the capital costs and the necessity of them to comply with Commission directives to meet Xcel’s burden to prove that they are appropriate for rate recovery.

419. The same cannot be said of the capital costs related to the Rate Comparison Tool.

420. While the timing of Commission orders regarding the TOU rate implementation justifies the introduction of these costs in Rebuttal Testimony, it in no way diminishes the legal burden necessary to support recovery.

421. As previously discussed, a utility does not meet its burden to prove that costs should be recovered by simply proving that it has, or will, incur costs in a certain amount.

422. The Company’s record support for the Rate Comparison Tool offered in testimony was limited to stating its existence and that Xcel will incur costs “to purchase software licenses” and “development costs.” Indeed, most of the record information about the Rate Comparison Tool was provided by the OAG in opposition to the tool. Further, much of Xcel’s justification for the reasonableness and usefulness of the tool seems to be presented (without citation) in its Initial Brief.⁸³

423. This is insufficient for the Company to meet its burden to justify recovery, all the more so because the Commission has expressed an interest in consideration of shadow-billing as an alternative to the Rate Comparison Tool, and the record provides an inadequate basis to evaluate the relative merits of the two options.

E-002/M-23-524, ORDER APPROVING TARIFF MODIFICATIONS, APPROVING COMPLIANCE PLAN, AND SETTING ADDITIONAL REQUIREMENTS FOR RESIDENTIAL TIME-OF-USE RATE IMPLEMENTATION at 6, Ordering Paragraph 12 (Feb. 23, 2026).

⁸² Minn. R. 7825.0300, subp. 4; *In the Matter of the Petition by Northern States Power Company d/b/a Xcel Energy for Approval of Deferrals Related to Depreciation O&M and Property Tax for 2022*, Docket No. G-002/M-21-750, ORDER DENYING PETITION at 3 (Feb. 9, 2022).

⁸³ Xcel Initial Brief at 179.

424. The Commission should allow the Company to recover capital costs related to its TOU rate implementation, except that the Commission should not allow the Company to recover capital costs for the Rate Comparison Tool.

8. Exceptions to ALJ Report

Xcel argued that the ALJ's recommendation to disallow recovery of Rate Comparison Tool costs failed to account for the fact that the Commission's Order neither required nor contemplated immediate deployment of shadow billing as a substitute for customers to evaluate whether to opt into the TOU rate.⁸⁴ While the Commission did not explicitly mandate deployment of the Rate Comparison Tool, Xcel noted that it approved the residential TOU rate and TOU compliance plan with the expectation that customers would be provided a means to compare rates and understand the potential TOU rate bill impacts.

While the ALJ contended that much of the Company's justification regarding the reasonableness and usefulness of the Rate Comparison Tool was presented in Xcel's Initial Brief, Xcel emphasized that the OAG's objections were not raised until Surrebuttal. Xcel maintained that the Initial Brief did not introduce new evidence, but rather synthesized and explained record evidence already contained in the record of this proceeding.

Finally, Xcel argued that implementing an opt-in TOU rate without providing customers a tool to compare rates and understand potential bill impacts would be unreasonable.⁸⁵

9. Staff Analysis

Staff concurs with the ALJ and OAG regarding the recommended disallowance of the Rate Comparison Tool amounts, as Xcel previously noted that the tool is still in development, subject to change, and the Commission had considered shadow billing as an alternative approach.

10. Decision Options

1023 Approve Xcel's Time of Use Rate Implementation incremental costs of \$3.2

⁸⁴ *In the Matter of the Petition of Xcel Energy for Approval of Residential Time of Use Rate Design*, Docket No. E-002/M-23-524, ORDER APPROVING REVISED OPT-IN PROPOSAL AND SETTING REPORTING REQUIREMENTS at 8 (May 15, 2025) ("In its first annual report, Xcel must identify the feasibility and cost of implementing a shadow billing program."). ("Xcel's future explanation of shadow billing cost and feasibility should include an assessment of the costs and benefits of adding bill impact analysis functionality to its billing system."); *In the Matter of the Petition of Xcel Energy for Approval of Residential Time of Use Rate Design*, Docket No. E-002/M-23-524, ORDER APPROVING TARIFF MODIFICATIONS, APPROVING COMPLIANCE PLAN, AND SETTING ADDITIONAL REQUIREMENTS FOR RESIDENTIAL TIME-OF-USE RATE IMPLEMENTATION at 6 (Feb. 23, 2026) ("Xcel's future explanation of shadow billing cost and feasibility should include an assessment of the costs and benefits of adding bill impact analysis functionality to its billing system.").

⁸⁵ Xcel noted that various party comments in Docket No. E-002/M-23-524 agreed that there needed to be some mechanism for customers to compare rates and understand the potential impacts of opting into the TOU rate.

million (\$2.8 million – MN jurisdiction) for the 2025 Test Year and 2026 Plan Year. (Xcel, Department)

1024 Disallow Rate Comparison Tool costs of \$0.2 million for the 2025 Test Year, and \$1.2 million for 2026 Plan Year. (ALJ, OAG)

1025 Disallow the remaining TOU-related capital costs of \$0.5 million for the 2025 Test Year, and \$1.2 million for 2026 Plan Year. (OAG)

(If the Commission selects DO #1024 and/or #1025, it may want to consider implementing the following:)

- A. Implement deferred accounting of TOU-rate implementation costs in the current rate case, rather than petition for such treatment in a separate docket. (Xcel)

F. Extreme Heat/ Poor Air Quality Reconnection Program Costs

1. Issue

Should the Commission approve Xcel Energy's proposal for additional \$2.445 million to revenue requirement for 2026 related to Extreme Heat/ Poor Air Quality Reconnection Program?

2. Xcel Energy - Rebuttal

Xcel Energy did not propose the additional costs for its new Reconnection Program in its initial MYRP forecast schedules nor in direct testimonies. In its Rebuttal testimonies, Xcel mentioned that the 2024 Safety, Reliability, and Service Quality (SRSQ) Docket included the developed an Advanced Metering Infrastructure (AMI) based plan to suspend disconnections and reconnect customers during extreme heat and poor air quality which was a collaboration with CUB and ECC.⁸⁶

In its 2025 SRSQ report, Xcel provided the following cost estimates to implement its extreme heat and poor AQI events:⁸⁷

⁸⁶ Xcel Energy - Martin Rebuttal, at 33-34

⁸⁷ Docket No. E-002/M-25-27 Xcel SRSQ Report, Pt. 3 - Service Quality, April 1, 2025, Table 26, p. 101.

Activity	Estimated Cost
<i>Development, recording, and delivery of messaging to customers, upfront system enhancements, and annual enhancements</i>	\$360,000
<i>Staff requirements per event*</i>	\$160,000
<i>Reconnection costs per event**</i>	TBD

*These estimates presume the events impact 19,000 customers.

**TBD: Reconnection costs for these events are not entirely known at this time, because the Company has never created this kind of framework in their existing systems and has not fully vetted or estimated the level of manual versus automated work that will be required. This will impact the actual cost of this form of reconnection activity.

Xcel stated that the initial proposal for this new program was for a 16-month rollout time frame. However, the Commission's July 25, 2025 Order in Docket No. E-002/M-25-27, approved the program and required implementation by May 1, 2026.⁸⁸ As a result, Xcel included the associated implementation costs for this new program:

- Additional \$404,000 and \$1,600,000 to its rate base in the 2025-2026, respectively.
- Additional \$1,893,000 in operating expenses in the 2026 Plan Year.

The additional costs for this new program are reflected in Xcel's MYRP forecast schedules during the parties rebuttal period,⁸⁹ resulting in an increase to the revenue requirement of approximately \$28,000 in 2025 and \$2.445 million in 2026.

3. Office of The Attorney General - Surrebuttal

In its surrebuttal, the OAG clarified that Xcel's proposed additional costs for the new "reconnection fee" program is not the same term as "reconnection fees" that it normally uses. The OAG referred to this program as the "Reconnection Program" not "reconnection fee" as Xcel titled it.⁹⁰ This program is intended to protect economically vulnerable residential customers by remotely and temporarily reconnecting their service using Advanced Metering Infrastructure (AMI) during extreme heat events or when the Air Quality Index (AQI) is unhealthy (151 or higher).

The OAG stated that it generally supports the Reconnection Program, recognizing that reduced contact with economically vulnerable customers resulting from remote disconnections makes it important to use Xcel's AMI investments to help protect those customers. However, it suggested modifications to the program and requested additional information. The OAG stated its concern about Xcel's request to add \$28,000 to its 2025 revenue requirement and \$2.45 million in 2026 to cover the program. The request included roughly \$405,000 in 2025 capital

⁸⁸ Xcel Energy - Halama Rebuttal, at 20

⁸⁹ *Id.*, Schedule 3A and 3B column 24

⁹⁰ OAG, Hinderlie Surrebuttal, at 40

costs, more than \$1.2 million in 2026 plant investments, and nearly \$1.9 million in 2026 operating and administrative expenses.

The OAG expressed significant concerns regarding Xcel Energy's cost estimates for the Reconnection Program both in the initial Docket No. 25-27 and when they were subsequently introduced in this current rate case:⁹¹

➤ **Concerns in cost estimates for Reconnection Program in Docket No. 25-27**

- Xcel's cost projections were preliminary and unsupported.
- Lack of Evidence: Xcel provided "no information on supporting assumptions" for its initial \$520,000 estimate, and discovery responses contained unsupported costs or unreasonable assumptions.
- Overestimated Customer Impact: Xcel's estimate assumed the program would impact 19,000 customers, which was approximately 8,000 customers higher than the highest level of disconnections reported by Xcel in any single month of 2024.
- Incremental Cost Uncertainty: It was unclear whether the estimated costs to set up program procedures were truly incremental or if they were already included in the pending rate case.
- Xcel admitted that its figures were merely "high-level" and "preliminary" and stated it was not yet asking for a determination on their reasonableness, as actual costs would remain unknown until a full season of operation was completed.

➤ **Concerns in the Current Rate Case**

- The cost proposal was much larger, totaling \$28,000 for 2025 and \$2,445,000 for 2026.
- Lack of Supporting Testimony: Xcel introduced these significantly higher costs for the first time in rebuttal testimony without providing supporting evidence or testimony explaining how any of these costs will be associated with the program.
- Substantial Cost Variance: Xcel's current Reconnection Program cost request is inconsistent with earlier estimates provided in Docket No. 25-27. While Xcel previously estimated approximately \$360,000 in one-time system setup costs, the Company now seeks \$405,000 in CWIP for 2025 and approximately \$1.6 million in 2026 capital costs, including \$1.203 million in Net Utility Plant and \$405,000 in CWIP.
- Unsupported O&M Assumptions: The OAG also questioned Xcel's projected 2026 O&M expenses of \$1.193 million in Customer Accounting and \$700,000 in Administrative and General costs.
- OAG considered an unsupported and high estimate: There were More than 17 reconnection events in 2026.
- The OAG argued that Xcel failed to explain the purpose or reasonableness of its proposed capital costs and did not provide sufficient support to reasonably estimate the

⁹¹ Ex. OAG-40 at 40-50 (Hinderlie Surrebuttal)

program's 2026 O&M expenses, even after discovery and information provided in Docket No. 25-27.

- Risk of Over-Recovery: The OAG argued that because these costs are inherently uncertain and depend on unpredictable weather and air quality events, allowing Xcel to recover these likely overestimates could harm ratepayers by allowing shareholders to "pocket any differences" if actual expenses are lower.

As a result, The OAG recommended denying recovery of these costs in the current rate case. Instead, The OAG supported allowing Xcel to track actual expenses through deferred accounting in a separate proceeding, with any future recovery subject to a prudent review before costs are passed on to ratepayers.

4. ALJ Report

The ALJ reiterated the Commission's requirement that Xcel implement a Reconnection Program to temporarily restore service to disconnected residential customers during extreme heat or when the Air Quality Index (AQI) reaches 151 or higher, with implementation by May 1, 2026. Xcel accordingly requested cost recovery for the program, including additions to rate base and operating expenses, increasing revenue requirements by \$28,000 in the 2025 test year and \$2,445,000 in the 2026 test year. The ALJ concluded that Xcel met its burden to demonstrate that these costs are reasonable and should be included in rates.⁹²

The ALJ found:

433. Xcel has met its burden to prove that these costs are reasonable and should be included in rates in this proceeding.

434. The Commission directed Xcel to implement the Reconnection Program, and it necessarily follows that Xcel should be allowed to recover the reasonable costs of complying with the Commission's Order.

435. This does not end the inquiry, however, as the Commission did not render a decision on the appropriate cost level for recovery. It is not, contrary to Xcel's suggestion, inappropriate for the OAG to scrutinize the costs associated with a program that it supported in concept. Support for a given program does not require unequivocal support for any price tag for that initiative, especially when the OAG raised similar cost concerns at the time of Commission approval in Docket E002/M-25-27. And here, certainly, the disparity between the initial estimates and the amounts requested for recovery is significant enough to warrant scrutiny.

436. Xcel did, however, establish that the preliminary nature of the earlier cost estimates renders it unsurprising that the actual costs materially differed from initial estimates.

⁹² ALJ report, at 66-68

437. The Company provided adequate support for its costs to justify inclusion in rates. Further, the record provides no basis to doubt Xcel's representation that the costs are incremental. The Company has unequivocally stated as much, and in the absence of a basis to doubt this representation, it is unclear what additional evidence Xcel could provide to prove the negative that costs for the Reconnection Program were not included in the initial rate request.

438. Further, this Report previously recommended approving the Company's capital true-up mechanism. While a true-up mechanism should not be used as a justification to approve unsupported cost levels, its presence does reduce the risk to ratepayers if Xcel's forecasted capital expenditures ultimately prove to be too high.

439. For these reasons, the Commission should approve Xcel's proposed recovery of costs related to the Reconnection Program.

5. Exceptions of ALJ Report

a. Office of the Attorney General

In its exceptions to ALJ report, the Office of the Attorney General (OAG) argued that Xcel failed to prove that its proposed Extreme Weather Reconnection Program costs are accurate, reasonable, or supported by sufficient evidence. The OAG contended that Xcel introduced significant new costs in rebuttal testimony without detailed support, including a \$404,000 rate base addition in 2025, a \$1.6 million rate base addition in 2026, and \$1.9 million in 2026 O&M expenses, resulting in a claimed revenue deficiency of \$28,000 in 2025 and \$2.445 million in 2026.

The OAG noted that these amounts greatly exceed Xcel's earlier preliminary estimates of \$360,000 in one-time setup costs and \$107,345 per reconnection event provided in the service-quality docket. The OAG argued that Xcel's calculations are mathematically inconsistent, unsupported by empirical data, and highly uncertain. It also pointed out that Xcel later reported actual 2025 costs of only \$63,309, far below its earlier estimate.

Additionally, the OAG argued that the ALJ improperly relied on evidence outside the record and overstated the protection provided by the capital true-up mechanism, particularly because most of the proposed costs are O&M expenses that are not subject to true-up protections. The OAG also stated as following:

Throughout these Exceptions, the OAG omits the Report's original footnotes when reproducing findings unless an exception relates to the source cited, as is the case with certain extreme-weather-reconnection-program findings. Where the OAG's revisions to a finding require citation or support, the citation or support is supplied using a footnote in red underlined text.⁹³

⁹³ OAG Exceptions to ALJ Report, at 4, footnote#15

The OAG recommended:

- Deny Rate Case Recovery: Exclude all proposed program costs from base rates at this time.
- Utilize Deferred Accounting: Direct Xcel to track actual, verified program expenses within the existing service-quality docket until sufficient operational baseline data is available.

For these reasons, as well as those discussed in the OAG's testimony and briefing, the Commission should adopt the modified and additional findings proposed below:

426. The Company added a request in Rebuttal Testimony to recover costs relating to a new program in which Xcel must temporarily reconnect service for disconnected residential customers during periods of extreme heat or poor air quality (Reconnection Program).⁴²⁶ ~~Xcel stated that t~~This program would add \$404,000 to Xcel's rate base in the 2025 Test Year⁴²⁷ and \$1,600,000 to its rate base in the 2026 Plan Year.⁴²⁸ ~~Xcel also seeks recovery of~~ stated that the program would add \$1,893,000 in operating expenses in the 2026 Plan Year.⁴²⁹ Overall, these changes would increase the 2025 Test Year revenue deficiency by \$28,000⁴³⁰ and increase the 2026 Plan Year revenue deficiency by \$2,445,000.⁴³¹

427. During the notice and comment period to approve the program, Xcel estimated that the cost of the program would include a one-time set-up cost of \$360,000 and low-end, mid-range, and high-end estimates for variable costs of between, respectively, \$38,608, \$107,345, and \$163,780 per event.⁴³² ~~In Docket No. E002/M-25-27, the OAG had advocated for expedited implementation of the Reconnection Program.~~⁴³³ The OAG also argued in that Docket Xcel's cost estimates were unsupported, as Xcel had failed to provide sufficient information in discovery and in comments to determine the basis for its cost estimates.⁴³⁴

~~⁴³³In the Matter of Northern States Power Co. d/b/a Xcel Energy's 2024 Annual Safety, Reliability and Service Quality Report, MPUC Docket No. E002/M-25-27, OAG Letter (July 16, 2025) (supporting decision options 9 and 10, to require implementation effective May 1, 2026); In the Matter of Northern States Power Co. d/b/a Xcel Energy's 2024 Annual Safety, Reliability and Service Quality Report, MPUC Docket No. E002/M-25-27, OAG Comments at 2 (May 9, 2025) (recommending plan implementation on an expedited timeline).~~

428. The Company explained in Docket No. E002/M-25-27 that cost assumptions and estimates provided in that proceeding were preliminary and that not all costs had been forecasted.⁴³⁵ ~~Xcel stated in reply comments, "[i]n short, there are multiple and irreducible uncertainties in making these forecasts. . . . In addition, to the Company's knowledge, no other utilities in the United States are currently implementing heat and/or AQI reconnection, so we lack comparative data from 10-11 other utilities and regions to inform our predictions and cost~~

estimates.”⁴³⁶ The Commission “approved Xcel’s plan to institute this program with significant modifications from its original proposal.”⁴³⁷

⁴³⁵ Ex. OAG-3 at 42–43 (Hinderlie Surrebuttal). *In the Matter of Northern States Power Co. d/b/a Xcel Energy’s 2024 Annual Safety, Reliability and Service Quality Report, MPUC Docket No. E002/M-25-27, Xcel Energy Reply Comments at 15 (June 3, 2025).*

⁴³⁶ *In the Matter of Northern States Power Co. d/b/a Xcel Energy’s 2024 Annual Safety, Reliability and Service Quality Report, MPUC Docket No. E002/M-25-27, Xcel Energy Reply Comments at 15 (June 3, 2025).*

429. When the Commission ordered Xcel to implement the program, it did not state whether it found Xcel’s cost estimates to be reasonable, but it did require Xcel to provide a summary of the costs of the program in future annual Service Quality reports.⁴³⁸

OAG 429a. Xcel filed its summary of the costs of the program on April 1, 2026 in its 2025 annual service quality compliance filing. It stated that it spent \$63,309 on the Reconnection Program in 2025, significantly less than the \$404,000 in additional rate base it claimed in this case.⁴⁶

⁴⁶ Motion to Take Official Notice, Ex. B at 29 of 40 (May 15, 2026) (excerpted from *In re N. States Power Co.’s 2025 Annual Safety, Reliability, and Service Quality Report, Docket No. E-002/M-26-27, Xcel Energy’s Service Quality Annual Report Part III at 116 (Apr. 1, 2026)*).

430. In this Docket, Xcel introduced its large request for recovery of Reconnection Program costs in rebuttal testimony with little explanation.⁴⁷ It stated in a spreadsheet that its increased rate base was due to “construction work in progress” and “general net utility plant in service.”⁴⁸ The spreadsheet also indicated that Xcel would incur \$1.193 million in “customer accounting” costs and \$700,000 in “administrative and general costs.”⁴⁹ In response to OAG discovery requests regarding the Company’s cost estimates,⁴³⁹ Xcel responded, “[t]he costs included in Halama Direct, Schedules 3A and 3B, column 24 include the mid-range estimates from Table 1 of the June 3, 2025 Reply Comments for per-event variable costs.”⁴⁴⁰ As Xcel Energy explained in Docket E002/M-25-27, “[a]s a mid-range estimate, we use the highest number of customers of record in a disconnected status in a non-CWR month in 2024. This includes customers newly disconnected that month and customers remaining disconnected from prior months. This occurred in July 2024, when 12,453 residential and commercial customers were in a disconnected status on July 18.”⁴⁴¹

⁴⁷ Ex. Xcel-19 at 20 (Halama Rebuttal).

⁴⁸ Ex. Xcel-19, sched. 3A at 3 (Halama Rebuttal); Ex. Xcel-19, sched. 3B at 3 (Halama Rebuttal).

⁴⁹ Ex. Xcel-19, sched. 3B at 4 (Halama Rebuttal).

441. In the Matter of Northern States Power Co. d/b/a Xcel Energy's 2024 Annual Safety, Reliability and Service Quality Report, MPUC Docket No. E002/M-25-27, Xcel Energy Reply Comments at 16 (June 3, 2025). Further, as explained in the Company's Reply Comments, the high-end estimate takes into consideration the expected roll out of additional AMI meters in 2025 and accounts for the possibility that the number of disconnected customers in future years could be higher than 2024. Id.

431. The Company also ~~confirmed~~ contended, in response to discovery, that the proposed costs were incremental to those costs already included in supplemental direct.⁴⁴²

433. Xcel has not met its burden to prove that these costs are reasonable and should be included in rates in this proceeding. Xcel provided contradictory evidence to support the claim that its request in this case includes the mid-range cost estimates from its Reply Comments in Docket E-002/M-25-27. Xcel did not explain whether the mid-range cost estimates in Docket E-002/M-25-27 were for capital costs, O&M costs, or both. Additionally, the OAG demonstrated mathematically that Xcel's cost estimate in this case is unrelated to the per-event mid-range cost estimate from Docket E-002/M-25-27.⁵⁰ This casts significant doubt on Xcel's contention that "[t]he costs included in Halama Direct, Schedules 3A and 3B, column 24 include the mid-range estimates from Table 1 of the June 3, 2025 Reply Comments for per-event variable costs" and leaves the Commission unable to determine an evidentiary basis for Xcel's request. Even if one assumes that the mid-range cost is used, the only evidence in the record regarding the reasonableness of estimating 17 reconnection events is the OAG's testimony that this is a "high estimate."⁵¹ Xcel provided no testimony supporting that it used 17 reconnection events as a basis for calculating costs nor that using this figure would be reasonable.

~~434. The Commission directed Xcel to implement the Reconnection Program, and it necessarily follows that Xcel should be allowed to recover the reasonable costs of complying with the Commission's Order~~

~~435. This does not end the inquiry, however, as t~~The Commission did not render a decision on the appropriate cost level for recovery. It is not, contrary to Xcel's suggestion, inappropriate for the OAG to scrutinize the costs associated with a program that it supported in concept. Support for a given program does not require unequivocal support for any price tag for that initiative, especially when the OAG raised similar cost concerns at the time of Commission approval in Docket E002/M 25-27. And here, certainly, the disparity between the initial estimates and the amounts requested for recovery is significant enough to warrant scrutiny.

OAG 435a. The Commission directed Xcel to implement the Reconnection Program, but Xcel has failed to demonstrate what the reasonable costs of the

Reconnection Program will be. Xcel failed to demonstrate the basis for its cost estimates, and the little explanation that Xcel did provide is mathematically inaccurate. Moreover, Xcel admitted that the costs of the program are highly uncertain. The Commission demonstrated an interest in determining accurate program costs when it ordered Xcel to file a “summary of costs incurred to implement the heat and AQI even plans in the previous year,”⁵² and Xcel’s summary of 2025 costs is significantly lower than its 2025 test-year request for these costs in this rate case.⁵³ Xcel is not entitled to recover unsupported cost estimates that are significantly larger than its actual costs.

52 In re N. States Power Co.’s 2024 Annual Safety, Reliability, and Service Quality Report, Docket No. E-002/M-25-27, Order at 2 (Jul. 25, 2025).

53 Motion to Take Official Notice, Ex. B at 29 of 40 (May 15, 2026) (excerpted from *In re N. States Power Co.’s 2025 Annual Safety, Reliability, and Service Quality Report*, Docket No. E-002/M-26-27, Xcel Energy’s Service Quality Annual Report Part III at 116 (Apr. 1, 2026)).

OAG 435b. Because of the lack of support for Xcel’s claimed costs and the uncertainty regarding the actual costs of the Reconnection Program, the OAG recommended that Xcel be allowed to request deferred accounting in its service quality Docket until Xcel has enough cost information to be able to make reasonable and supported rate-case requests for the costs of the Reconnection Program.⁵⁴

54 Ex. OAG-3 at 49–50 (Hinderlie Surrebuttal).

OAG 435c. Xcel has failed to demonstrate that its request for recovery of the estimated costs of the Reconnection Program is accurate or reasonable and the Commission will deny Xcel’s request. Xcel may petition in its service-quality Docket to track the costs of program implementation until it has enough cost data to make an accurate request in a future rate case.

~~436. Xcel did, however, establish that the preliminary nature of the earlier cost estimates renders it unsurprising that the actual costs materially differed from initial estimates.~~

~~437. The Company provided adequate support for its costs to justify inclusion in rates. Further, the record provides no basis to doubt Xcel’s representation that the costs are incremental. The Company has unequivocally stated as much, and in the absence of a basis to doubt this representation, it is unclear what additional evidence Xcel could provide to prove the negative that costs for the Reconnection Program were not included in the initial rate request.~~

~~438. Further, this Report previously recommended approving the Company’s capital true-up mechanism. While a true-up mechanism should not be used as a justification to approve unsupported cost levels, its presence does reduce the risk to ratepayers if Xcel’s forecasted capital expenditures ultimately prove to be too high.~~

~~439. For these reasons, the Commission should approve Xcel's proposed recovery of costs related to the Reconnection Program.~~

6. Motion to Take Official Note

On May 15, 2026, the OAG filed Motion to Take Official Note. The OAG said the Commission previously ordered Xcel to implement a reconnection program that temporarily restores service to economically vulnerable customers during extreme heat events or when the Air Quality Index reaches 151 or higher. In this rate case, Xcel later requested recovery of estimated program costs, including a \$404,000 rate base addition in 2025, a \$1.6 million rate base addition in 2026, and \$1.893 million in 2026 O&M expenses, resulting in a claimed revenue deficiency of \$28,000 in 2025 and \$2.445 million in 2026.

However, Xcel's subsequent filing in its annual service quality Docket showed that actual 2025 program costs were only \$63,309, significantly lower than the estimate used in the rate case. The OAG argued that these actual costs are highly relevant to evaluating the reasonableness and accuracy of Xcel's requested recovery and requests that the Commission take official notice of this updated information.

7. Staff Analysis

a. Financial Analysis

Staff agrees with the OAG's analysis regarding the significant cost variance associated with the Reconnection Program. Xcel must show proof and justify the requested costs are just and reasonable. However, Staff would like to address that the program cost increased from a preliminary 2025 estimate of approximately \$520,000 to \$2.445 million in this rate case, representing an increase of more than 370% within one year.

b. Economic Analysis

Staff notes that Xcel provided limited supporting evidence for these costs and introduced more than \$2 million in additional program costs during rebuttal testimony. The late filing limited stakeholders' ability to fully review and evaluate the request. The Commission may wish to further examine during the hearing why these costs were not included in Xcel's initial filing.

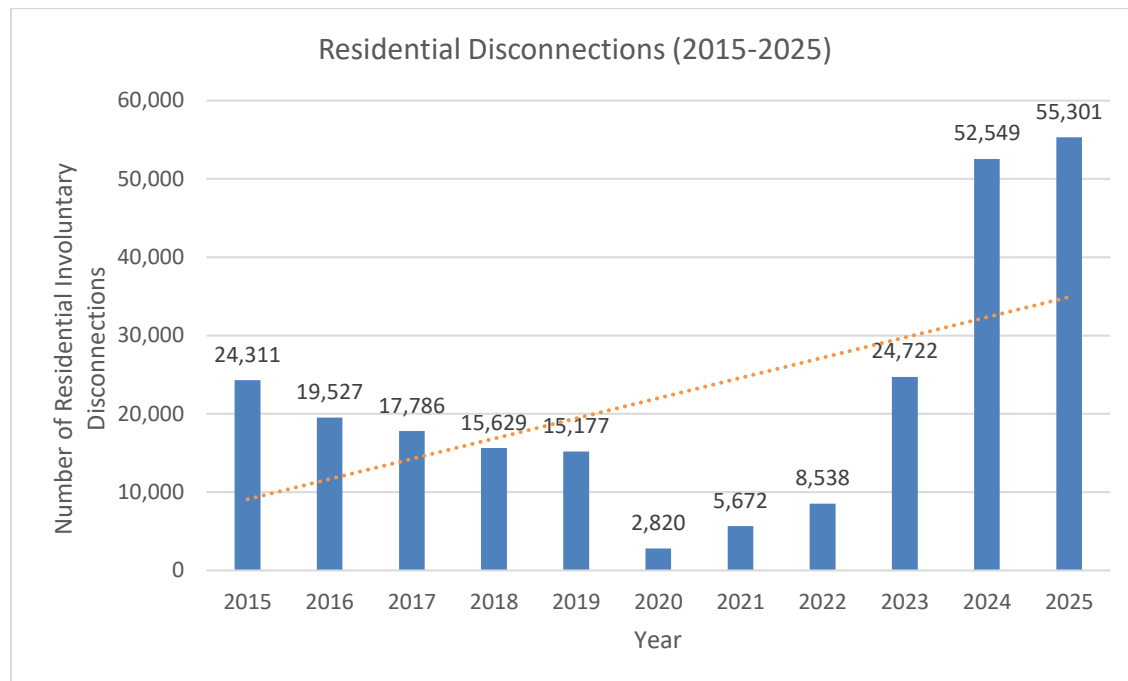
Minn. Rule 2500 Variance

After beginning the rollout of remote AMI meters, the Company petitioned for a variance to Minn. Rule 7820.2500 in which service may be disconnected only when a utility representative makes a personal visit to the service address, and the representative attempts to make contact with the customer.⁹⁴ In Docket 22-233, the Commission granted Xcel Energy a one-year variance so that it could perform disconnections remotely.⁹⁵ During the 2023 SRSQ

⁹⁴ [Minn. Rule 7820.2500 Manner of Disconnection.](#)

⁹⁵ Docket No. E-002/M-22-233 Commission ORDER APPROVING PETITION AS MODIFIED AND REQUIRING

proceedings, a second one-year variance was granted.⁹⁶ After the variance was granted in March 2023, disconnections more than doubled in 2024 and marginally grew again in 2025.



However, during the 2024 SRSQ proceedings in February 2026, the Commission denied Xcel's variance to perform remote disconnections without a site visit, primarily due to concerns about growing involuntary disconnections of residential customers.⁹⁷

Xcel made an estimate of 19,000 customers that would need to be reconnected per summer. Without the variance, Staff surmises that there will be less disconnections due to the added effort of performing site visits every time; and therefore, there will be less reconnections to be performed during extreme weather events. Therefore, the cost estimate will likely be less than originally presented.

On the other hand, during the February 2026 proceedings in Docket 25-27, the Commission voted to require Xcel to waive the \$13.50 reconnection cost after extreme weather events.⁹⁸ This may also increase the Reconnection Program cost estimate if the Company must assume reconnection costs.

FILINGS, March 22, 2023, Order Point 1, p. 10.

⁹⁶ Docket No. E-002/M-24-27 Commission ORDER ACCEPTING REPORTS AND SETTING ADDITIONAL REQUIREMENTS, January 13, 2025, Order Point 16, p. 12.

⁹⁷ Docket No. E-002/M-25-27 Commission ORDER ACCEPTING REPORTS AND SETTING ADDITIONAL REQUIREMENTS, March 27, 2026, Order Point 14, p. 11.

⁹⁸ Docket No. E-002/M-25-27 Commission ORDER ACCEPTING REPORTS AND SETTING ADDITIONAL REQUIREMENTS, March 27, 2026, Order Point 13, pp. 10-11.

With these considerations in mind and continuing economic uncertainty, Staff finds that the Company will only be able to provide a final cost level to provide the program after one year has lapsed, which would be May 2027.

Similarly, the OAG takes exception with the ALJ's recommendation to allow fully recovery of costs to provide the Reconnection Program. Instead, the OAG recommends denial of recovery at this time, and instead, allow Xcel to petition for deferred accounting in its annual SRSQ Docket.⁹⁹ Staff finds the OAG's argument that the record is devoid of evidence of the actual costs of the program to be correct. While the program began on May 1, 2026, it has yet to be used and is, in fact, one of the first of its kind in the nation. Therefore, there are no other programs like it in the nation on which to gain information of approximate costs.

Staff is supportive of allowing the Company to petition for deferred accounting in the next SRSQ report (reporting year 2026 to be filed in spring 2027). Again, Staff believes that Xcel will have an exact accounting of how much the Reconnection Program costs to provide after the first summer concludes.

8. Decision Options

1026 Allow Xcel Energy to include additional costs of its Extreme Heat/Poor Air Quality Reconnection Program which will increase 2025-2026 revenue requirement by \$28,000 and \$2,445 million, respectively. (Xcel, ALJ)

1027 Deny Xcel Energy's request to include additional costs of its Extreme Heat/Poor Air Quality Reconnection Program which would have increased 2025-2026 revenue requirement by \$28,000 and \$2.445 million, respectively. (OAG)

G. Energy Supply O&M

1. Issue

Should the Commission approve Xcel's proposed Energy Supply O&M expenses?

2. Xcel Energy – Direct

Xcel described the Energy Supply O&M budget as related to the O&M of its generation fleet, and categorized into Internal Labor, Contract Labor, Materials, Chemicals, and Other expenses.

For the MN jurisdiction, Xcel budgeted \$122.3 million of Energy Supply O&M expenses in 2025, and \$140.7 million in 2026. A breakout of historical and budgeted expenses is supplied in Table 10 below.

⁹⁹ OAG Exceptions to the ALJ Report, May 15, 2026, p. 5.

Table 10 – Xcel’s Energy Supply O&M Expenses - 2021-2026 (\$M)¹⁰⁰

	2022 Test Year	2023 Plan Year	2024 Plan Year	2021 Actual	2022 Actual	2023 Actual	2021- 2023 Actuals Average	2024 Actual	2024 Forecast	2025 Budget	2026 Budget
Internal Labor											
NSPM - Total Company	\$60.0	\$63.8	\$61.3	\$65.4	\$61.7	\$66.0	\$64.3	\$66.5	\$65.6	\$67.7	\$73.7
MN Jurisdiction net of IA billings to NSPW	\$43.7	\$46.5	\$44.6	\$47.6	\$45.0	\$48.2	\$47.0	\$48.4	\$47.9	\$49.5	\$54.0
Contract Labor											
NSPM - Total Company	\$49.3	\$49.3	\$46.3	\$36.9	\$42.8	\$41.7	\$40.5	\$45.5	\$46.5	\$47.4	\$52.2
MN Jurisdiction net of IA billings to NSPW	\$35.9	\$35.9	\$33.7	\$26.8	\$31.1	\$30.4	\$29.4	\$33.0	\$33.8	\$34.5	\$38.1
Materials											
NSPM - Total Company	\$21.0	\$22.8	\$23.1	\$15.9	\$14.5	\$14.0	\$14.8	\$12.8	\$13.7	\$18.1	\$29.0
MN Jurisdiction net of IA billings to NSPW	\$15.2	\$16.6	\$16.8	\$11.6	\$10.6	\$10.2	\$10.8	\$9.3	\$10.0	\$13.2	\$21.2
Chemicals											
NSPM - Total Company	\$3.1	\$3.0	\$3.2	\$6.0	\$6.9	\$6.1	\$6.3	\$4.9	\$4.9	\$4.3	\$4.3
MN Jurisdiction net of IA billings to NSPW	\$2.2	\$2.2	\$2.3	\$4.4	\$5.0	\$4.5	\$4.6	\$3.6	\$3.6	\$3.1	\$3.2
Other											
NSPM - Total Company	\$21.2	\$21.8	\$23.8	\$18.8	\$22.3	\$23.1	\$21.4	\$23.7	\$25.6	\$30.1	\$33.1
MN Jurisdiction net of IA billings to NSPW	\$15.5	\$15.9	\$17.3	\$13.6	\$16.2	\$16.8	\$15.5	\$17.2	\$18.6	\$21.9	\$24.2
Totals											
Total NSP Total Company	\$154.6	\$160.8	\$157.7	\$143.0	\$148.1	\$150.9	\$147.3	\$153.5	\$156.4	\$167.5	\$192.4
MN Jurisdiction net of IA billings to NSPW	\$112.5	\$117.0	\$114.8	\$104.0	\$107.9	\$110.1	\$107.4	\$111.6	\$113.9	\$122.3	\$140.7

Xcel noted that its 2025 Energy Supply O&M budget was \$11.1 million or 7.1% higher than 2024 forecast, driven by major overhaul work at the Black Dog, High Bridge, and Riverside combined cycle plants totaling \$6.4 million, in addition to the Sherco Solar I and II resources totaling \$4.7 million. For 2026, Xcel’s Energy Supply O&M budget was 14.9% higher than 2025, driven by the

¹⁰⁰ Staff Note – Table X reflects updated MN jurisdictional allocators provided in Ex. Xcel-46 at 3-4. (Capra Rebuttal). 2021-2023 actuals average column taken from Ex. Xcel-45 at 57 (Capra Direct).

Sherco Solar I, II, and III resources totaling \$10.7 million, the Sherco Unit 3 major overhaul, and a one-time obsolete inventory write-off of \$8.1 million due to the Sherco Unit 1 retirement.

Xcel provided additional commentary on the five Energy Supply O&M categories of Internal Labor, Contract Labor, Materials, Chemicals, and Other expenses, which are detailed below.

Regarding Internal Labor, Xcel noted a 2021-2023 average annual expense of \$64.3 million. For 2025, the Company indicated a 3.2% increase in 2025 versus 2024 forecast, due to planned overhauls at Black Dog and High Bridge, an additional 11 employees at Sherco Solar I and II, offset by Sherco Unit 2's retirement. For 2026, Xcel noted an 8.8% increase versus 2025 budget, due to six additional full-time employees at Sherco Solar III, and the Sherco Unit 3 and King overhauls during which Special Construction labor will perform specialty work.¹⁰¹

Regarding Contract Labor, Xcel noted a 2021-2023 average annual expense of \$40.5 million, as well as an upward trend in 2021-2026 expenses due to the addition of wind and solar facilities. For 2025, the Company indicated a 1.9% increase versus 2024 forecast, due to a major combustion turbine overhaul at the Riverside plant. For 2026, Xcel indicated a 10.2% increase versus 2025 due to major plant and turbine overhauls at Sherco Unit 3 and Red Wing Unit 1, which will require additional contract labor to complete.¹⁰²

Regarding materials, Xcel noted a 2021-2023 average annual expense of \$14.8 million, and that costs tend to increase when replacement parts are needed that do not qualify for capital funding. For 2025, the Company indicated a \$4.3 million increase versus 2024 forecast, due to material for the new Blue Lake reciprocating internal combustion engine (RICE) units, an obsolete inventory write-off for the Blue Lake Unit 1-4 retirements, a combustion turbine inspection at the Inver Hills plant; generator and regulatory work at the King plant; and increased maintenance costs at the Crowned Ridge, Lake Benton, and Northern Wind plants. For 2026, Xcel indicated a \$11 million increase versus 2025 due to a write-off of obsolete inventory with Sherco Unit 1's retirement, as well as Sherco Unit 3's major overhaul.¹⁰³

Regarding chemicals, Xcel noted a 2021-2023 average annual expense of \$6.3 million, as well as a declining trend in expenses since 2021. The Company stated this was due to operational efficiency improvements at King and Sherco Unit 1. For 2025, Xcel noted a 32.3% decrease versus the 2021-2023 average expense, driven by the Sherco Unit 2 retirement, as well as lower seasonal operation projections at King. For 2026, Xcel indicated a 0.7% increase versus 2025, reflecting the chemical consumption improvements and maintaining unit forecast dispatch profiles.¹⁰⁴

Regarding Other, Xcel noted a 2021-2023 average annual expense of \$21.4 million, reflecting the addition of new wind turbine land easement payments. For 2025, the Company indicated

¹⁰¹ Ex. Xcel-45 at 68-70. (Capra Direct) Also see Table X above.

¹⁰² *Id.*, at 71-72. (Capra Direct)

¹⁰³ *Id.*, at 73-74. (Capra Direct)

¹⁰⁴ *Id.*, at 78-79, 90-91. (Capra Direct)

an increase of \$4.5 million, or 18%, versus 2024 forecast, driven by land easement payment escalations at the Dakota Range, Nobles, and Mower wind facilities, a new land easement payment for Sherco Solar II, and less budgeted administrative and general (A&G) credits at Sherco in 2025. For 2026, Xcel indicated a \$3.1 million increase versus 2025, driven by the Sherco Solar III generating resource land easement payment, which will begin operation in 2026.¹⁰⁵

3. XLI – Direct

XLI noted Xcel’s MN jurisdictional Energy Supply O&M expenses for the 2022-2024 period, as indicated in Table 11 below.

Table 11 – NSPM Projected and Actual Energy Supply O&M Expense (\$M)¹⁰⁶

Year	Forecast	Actual	% Change
2022	\$112.5	\$107.9	-4%
2023	\$117.0	\$110.1	-6%
2024	\$114.8	\$111.6	-3%
Total	\$344.3	\$329.6	-4.3%

XLI argued that Xcel has consistently overstated its MN jurisdictional Energy Supply O&M expense by an average of 4.3% each year, or a cumulative amount of \$14.7 million over the past three years. Additionally, XLI noted that Xcel’s 2025 budget of \$122.3 million is 7.8% higher than its 2024 forecast,¹⁰⁷ while the 2026 budget of \$140.7 million is 24.5% higher than the 2024 forecast, and 15.4% higher than 2025.

XLI recommended a downward adjustment of 4.3% to the Energy Supply O&M expense, or \$4.9 million in 2025 and \$5.7 million in 2026. XLI based this adjustment on Xcel’s average variance of forecasted to actual Energy Supply O&M expenses for the 2022-2024 period and argued that it would protect customers from overpaying for this expense.

4. Xcel Energy – Rebuttal

Xcel reaffirmed its proposed amounts for Energy Supply O&M expenses and contended that its budget represented reasonable costs of operating and maintaining its generation fleet.

Xcel noted that its actual 2022-2024 Energy Supply O&M expenses were lower than the amounts approved in the last rate case due to delays in obtaining permits for Sherco Solar I and II, which in turn delayed their construction.

¹⁰⁵ Ex. Xcel-45 at 91-92. (Capra Direct) Also see Table X above.

¹⁰⁶ Ex. XLI-2 at 50 (LaConte Direct).

¹⁰⁷ Staff Note – XLI calculated based on the 2024 Forecasted and 2025 column in Ex. Xcel-45 at 57, Table 7 (Capra Direct). Calculation as follows: $\$122.5 - \$113.6 = \$8.9$. $\$8.9 / \$113.6 = 7.8\%$.

The delays resulted in 2023 actual O&M expenses being \$0.9 million lower than the approved amount, while the 2024 actual expenses were \$4.2 million lower than the approved amount. Xcel indicated that Sherco Solar I was in service during fourth quarter 2024, while Sherco Solar II was in service in September 2025.¹⁰⁸

Additionally, Xcel noted liquidated damage payments from wind service providers in the amount of \$10 million between 2022-2024, as well as a \$2.5 million waking damage payment from NextEra related to the Lake Benton Wind project in 2022.

Xcel argued that XLI's analysis overlooked the reasons that the Energy Supply O&M expenses were lower during 2022-2024 period, as well as ignored the cost drivers impacting the increased 2025-2026 budgets.

5. XLI – Surrebuttal

XLI reaffirmed its existing recommended reductions to Energy Supply O&M expenses for 2025-2026.

XLI contended that while Xcel credited a portion of over collected Energy Supply O&M customer costs through the renewable energy standard (RES) Rider, the reduced O&M expense of \$5.1 million from the Sherco Solar I and II in-service delays was not recognized in that proceeding.

XLI indicated that Xcel's customers do receive the benefit of lower Energy Supply O&M costs through the Company's sales true-up mechanism. However, as that benefit is delayed, Xcel continues to recover its projected test year amount.

6. ALJ Report

The ALJ noted the following in his findings:

452. The over-budgeting in Xcel's recent Energy Supply O&M budgets, as well as the sharp increases in the budgets for 2025 and 2026, are sufficiently significant to warrant further attention.

453. Xcel's explanations for this trend were, however, sufficiently reasonable and specific to meet its burden to prove it is entitled to recovery of its proposed Energy Supply O&M budget in 2025 and 2026. This is especially true where XLI has not disputed either the reasonableness, or the amounts, of the drivers identified by Xcel.

454. Further, the argument that Xcel's true-up would protect it from over-recovery is without merit. These costs are O&M expenses, not capital expenses.

¹⁰⁸ While O&M expenses for the Sherco Solar facilities are recovered through the RES Rider, with the exception of internal labor, Xcel included these O&M expenses in its presentation of O&M expenses and its discovery responses to show overall O&M trends.

The Company does not have, nor is it proposing in this case, an O&M tracker. Any under-recovery would deprive the Company of the means to necessary and reasonable costs of providing electric service.

455. The Commission should approve recovery of Xcel's proposed Energy Supply O&M budget for both the 2025 Test Year and the 2026 Plan Year.

7. Exceptions to ALJ Report

XLI contended that the ALJ's recommendation overlooked the burden of proof in that "by merely showing that it has incurred, or may hypothetically incur, expenses, the utility does not necessarily meet its burden of demonstrating that it is just and reasonable that the ratepayers bear the costs of those expenses."¹⁰⁹

XLI reaffirmed Xcel's historical trend of overstating its Energy Supply O&M budgets, and that the Company has not met its burden in demonstrating that its proposal is just and reasonable.

XLI proposed the following modifications to the ALJ's findings.

453. Xcel's explanations for this trend were, ~~however, sufficiently reasonable and specific~~ insufficient to meet its burden to prove it is entitled to recovery of its proposed Energy Supply O&M budget in 2025 and 2026. This is especially true ~~where XLI has not disputed either the reasonableness, or the amounts, of the drivers identified by Xcel given the Company's overstatement is a historical trend.~~

454. Allowing the Company to recover higher rates will directly deny customers the opportunity to benefit from the Company's lower Energy Supply O&M costs through lower rates Further, ~~the argument that Xcel's true-up would protect it from over-recovery is without merit. These costs are O&M expenses, not capital expenses. The Company does not have, nor is it proposing in this case, an O&M tracker. Any under-recovery would deprive the Company of means to necessary and reasonable costs of providing electric service.~~

454.455. The Commission should protect ratepayers by approving lower Energy and Transmission O&M costs, as adjusted consistent with XLI's recommendations.

~~455. The Commission should approve recovery of Xcel's proposed Energy Supply O&M budget for both the 2025 Test Year and the 2026 Plan Year.~~

8. Staff Analysis

While forecasting can always be difficult, and even more so when there are inflation pressures on materials and labor, Staff notes that Xcel has overestimated its actual Energy Supply O&M expenses not only from 2022-2024, but also from 2016-2021 in the previous rate case.¹¹⁰

¹⁰⁹ In re Petition of N. States Power Co., 416 N.W.2d 719, 722-23 (Minn. 1987) (emphasis added).

¹¹⁰ In the Matter of a Petition of Northern States Power Company, d/b/a Xcel Energy, for Authority to

9. Decision Options

1028 Approve Xcel's request to recover \$122.3 million in 2025 and \$140.7 million in 2026 for its MN jurisdiction Energy Supply O&M expenses. (Xcel, ALJ)

1029 Remove \$4.9 million in 2025 and \$5.7 million in 2026 for Energy Supply O&M expenses, reflecting an annual downward adjustment of 4.3%. (XLI)

H. Distribution O & M (Vegetation Management)

1. Issue

Should the Commission approve Xcel's proposed Distribution O & M (Veg Management) expenses?

2. Xcel Energy – Direct

Xcel described its Distribution O&M as related to maintaining, inspecting, installing, and constructing distribution facilities such as poles, wires, transformers, and underground electric facilities, in addition to vegetation management and damage prevention.

Xcel budgeted \$112.5 million of Distribution O&M expenses in 2025, and \$116.9 million in 2026, which represents a 3% overall annual increase from 2021-2026. A breakout of historical, forecast, (half year actuals and half year forecast) and budgeted expenses is supplied in Table 12 below.

Table 12 Distribution O&M Expenses (\$M)¹¹¹

Minnesota Electric Jurisdiction	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2025 Budget	2026 Budget
Internal Labor	\$40.3	\$40.3	\$42.8	\$45.4	\$48.4	\$48.8
Contract Labor	\$12.1	\$15.4	\$16.2	\$19.0	\$14.1	\$14.6
Vegetation Management	\$31.3	\$35.8	\$28.6	\$31.1	\$37.4	\$40.9
Damage Prevention	\$10.8	\$9.7	\$11.0	\$13.1	\$12.8	\$13.0
AGIS	\$1.3	\$1.3	\$1.1	\$1.4	\$2.1	\$1.5
Other	\$6.5	\$4.9	\$(2.6)	\$1.7	\$(2.3)	\$(1.9)
Total	\$102.3	\$107.4	\$97.1	\$111.7	\$112.5	\$116.9

Increase Rates for Electric Service in the State of Minnesota, Docket No. E-002/GR-21-630, Ex. DOC-21 at 74 (Campbell Direct). (October 3, 2022)

¹¹¹ Ex. Xcel-36, at 140. (Mensen Direct)

Xcel noted higher 2025 budgeted expenses versus 2023, with a majority of the increase driven by planned vegetation management work from customer requests, damage prevention costs due to customer location services requests and internal labor base pay increases.

Additionally, Xcel noted higher 2026 budgeted expenses versus 2025, primarily driven by increased vegetation management, with a partial offset to Advanced Grid Intelligence and Security (AGIS) due to reduced training and readiness expenses, as AMI meter and Field Area Network (FAN) deployment is anticipated to be completed in 2025.

For internal labor, Xcel indicated an increased expense due to annual pay increases, a mixed work adjustment between capital and O&M for certain routine work, and new vendor contract rates that went into effect.

For vegetation management, Xcel indicated an increased expense due to the number of line miles maintained each year, in order to make up for work that was delayed in prior years. Additionally, Xcel factored in contractor rate increases and additional time needed to prune vegetation growth associated with high amounts of rain in recent spring seasons. Xcel hoped to mitigate some of these increases by new technology and analytics, leveraging volume of work, and contractor cost control.

For damage prevention, Xcel indicated an increased expense due to outside labor services, which perform a significant amount of locate tickets during the peak construction season. Xcel noted that contractors supplement internal labor in doing this seasonal work due to the Company's collective bargaining agreements, as well as to mitigate potential risks (inaccurate locates, third party claims, or other issues). The budget was determined based on the forecasted number of locate requests and current vendor contract costs.

3. Department of Commerce – Direct

The Department noted Xcel's annual vegetation management expenses and year-over-year percent increases in Table 13 below.

Table 13: Annual Percent Increase for Distribution Vegetation Management Costs for Minnesota (\$M)¹¹²

	2022 Actual	2023 Actual	2024 Actual	2025 Proposed	2026 Proposed
Distribution Vegetation Management Expense ¹¹³	35.8	28.6	30.7	37.4	40.9
Annual Percent Increase ¹¹⁴	N/A	-20%	7%	22%	9%

Additionally, the Department indicated a 33% increase¹¹⁵ for 2026 expenses versus 2024 actual expenses.

In response to an information request, Xcel indicated that other factors impacting the 2025 and 2026 vegetation management budget included contractor rate increases, additional time required due to heavy rains, increased circuit miles in urban areas with higher density of trees, less opportunities to use mechanical equipment, and inflation increases.¹¹⁶

As reflected in the Department's Table 14 below, Xcel was allocated \$135.6 million in vegetation management costs for test years 2022-2024, while actual expenditures were \$95.1 million.

Table 14: Comparing Test Year and Actual Historical Distribution Vegetation Management Costs for Minnesota (\$M)¹¹⁷

	2022	2023	2024
Approved Test Year ¹¹⁸	\$43.4	\$46.0	\$46.2
Actual Expenditures ¹¹⁹	\$35.8	\$28.6	\$30.7
Over/(Under) Estimate from Test Year ¹²⁰	\$7.6	\$17.4	\$15.5

¹¹² Ex. DOC-7 at 17 (Uphus Direct).

¹¹³ *Id.*, at AU-D-1 and 54 (Uphus Direct).

¹¹⁴ (Current Year Distribution Vegetation Management Expense – Prior Year Distribution Vegetation Management Expense) / Prior Year Distribution Vegetation Management Expense = Annual Percent Increase.

¹¹⁵ $(40.9 - 30.7) / 30.7 = 33\%$.

¹¹⁶ Ex. DOC-7, AU-D-1 at 51 (Uphus Direct).

¹¹⁷ Ex. DOC-7 at 19 (Uphus Direct).

¹¹⁸ *Id.*, at AU-D-1 and 54 (Uphus Direct).

¹¹⁹ *Id.*

¹²⁰ Approved Test Year, Less Actual Expenditures.

The Department noted that Xcel over collected its actual vegetation management expenditures from the last rate case, and, as the work was not actually completed, were moving these expenses to the 2025-2026 test years.

The Department argued that Xcel should use 2024 actual vegetation management expenses as a baseline, applied with a 3% annual increase that the Company noted for overall Distribution O&M from 2021-2026. This approach would result in vegetation management expense of \$31.6 million¹²¹ in 2025 and \$32.6 million¹²² in 2026 and thus reduce the revenue requirement by \$5.8 million¹²³ in 2025 and \$8.3 million¹²⁴ in 2026.

4. Xcel Energy – Rebuttal

Xcel reaffirmed its original recommendations of 2025-2026 vegetation management expenses.

Xcel argued that the Department’s analysis failed to acknowledge the reasons for the 2025-2026 vegetation management increases versus prior years and looked at those costs in isolation versus comparing the reasonableness of the overall Distribution O&M budget, which represented a modest 2.4% increase in 2025, and a 4% increase in 2026. Additionally, Xcel noted higher amounts of Minneapolis precipitation in 2024-2025 as compared to recent years, and as much as 10 inches more in 2024 than the average amount of 20 inches.

Xcel noted that the Department had previously asked Xcel in response to its 2024 Annual Safety, Reliability, and Service Quality Report to explain why it had not increased its vegetation management budgets starting in 2022, when it was apparent that labor costs were increasing well above inflation, which in turn contributed to a decline in the number of miles trimmed and an increase in tree-coded customer interruptions.¹²⁵ Xcel argued that the Department’s comments in that proceeding appeared to recognize the importance of setting vegetation management budgets to accomplish the work necessary to support reliable service.

Xcel indicated that due to the frequency and severity of storms experienced in 2023, routine maintenance work was postponed to focus on higher priority customer requests such as branches growing into lines causing sparks, removing trees in proximity to power lines, and internal first-responders. Xcel noted a 40% increase in expense for this work, and that storm restoration O&M costs were the highest annual expense in the five-year period from 2019-2023.¹²⁶

¹²¹ $30.7 \times 1.03 = 31.6$.

¹²² $31.6 \times 1.03 = 32.6$.

¹²³ $37.4 - 31.6 = 5.8$.

¹²⁴ $40.9 - 32.6 = 8.3$.

¹²⁵ *In the Matter of Xcel Energy’s 2024 Annual Safety, Reliability, and Service Quality Standards Report and Proposed SAIFI, SAIDI, and CAIDI Reliability Standards for 2024*, Docket No. E-002/M-25-27. Department Comments, at 19-20 and 23 (July 11, 2025).

¹²⁶ Ex. Xcel-35 at 47 (Mensen Rebuttal).

5. Department of Commerce – Surrebuttal

The Department reaffirmed its original recommendation to use Xcel’s 2024 actual vegetation management expenses as a baseline, with a 3% annual increase that the Company noted for overall Distribution O&M from 2021-2026. Additionally, the Department argued that its recommended amounts accommodate annual increases in distribution vegetation management expenses.

In response to an information request, the Department indicated that Xcel’s actual vegetation management expenses as of September 30, 2025 were \$20.1 million, which is significantly below budget, while clearing more miles year-to-date than planned.

The Department annualized Xcel’s vegetation management expense for the remaining 3 months of 2025, based on historical spending and September 30, 2025 actuals, which are summarized in Table 15 below.

Table 15: Proposed 2025 Distribution Vegetation Management Costs for Minnesota Compared to Year-to-Date Costs as of September 30, 2025 (\$M)¹²⁷

	2025 Proposed	YTD Sept 2025	2025 Annualized
Distribution Vegetation Management Expense	\$37.4	\$20.1	\$26.8 ¹²⁸
Difference from 2025 Test Year		\$(17.3) ¹²⁹	\$(10.6) ¹³⁰

The Department believed the \$26.8 million annualized amount is inflated, as it believed a significant amount of vegetation management occurred in the warmer months. Notwithstanding, the Department’s argued that its recommended \$31.6 million for 2025 was a conservative figure as compared to the \$26.8 million annualized amount, and thus does not reflect a significant increase, but rather a decrease in spending over 2024 actuals.

Additionally, the Department argued that applying a 3% average annual increase is fairly consistent with the three-year average of Xcel’s 2022-2024 actual expenses (\$31.7 million), and that any increases seem to be offset by costs getting capitalized as distribution capital projects, as reflected in Xcel’s most recent IDP filings.¹³¹

¹²⁷ Ex. DOC-8, at 11. (Uphus Surrebuttal)

¹²⁸ $(20.1 / 9) \times 12 = 26.8$.

¹²⁹ $20.1 - 37.4 = (17.3)$.

¹³⁰ $26.8 - 37.4 = (10.6)$.

¹³¹ Docket No.’s E-002/M-23-452 and E-002/M-25-142.

The Department emphasized that Xcel has historically overestimated vegetation management costs not only in the current rate case, but also in the Service Quality proceeding,¹³² as illustrated in Table 16 below.

Table 16: Comparing Budget and Actual Historical Distribution Vegetation Management Costs for Total Company (\$M)¹³³

	2022	2023	2024	Cumulative
Forecasted budget per SRSQ	\$41.5	\$49.1	\$37.1	\$127.7
Actual Expenditures per SRSQ	\$38.9	\$30.7	\$31.6	\$101.2
NSPM Over/(Under) Estimation	\$2.6	\$18.4	\$5.5	\$26.5

6. Initial Briefs

While the Suburban Rate Authority (SRA) did not sponsor testimony on this issue, it was supportive of Xcel's proposed vegetation management budget, noting that a robust vegetation management program is essential to the reliability and safety of Xcel's system.

Additionally, SRA argued that the 2025-2026 vegetation management budgets appear to be well supported and necessary to catch up to vegetation growth that poses a reliability risk. However, metrics such as areas planned for tree trimming that were actually completed and cost per mile should be explored in the next rate case.

All other parties reaffirmed their existing recommendations and arguments in initial and reply briefs.

7. ALJ Report

The ALJ noted the following in his findings:

466. The Company has not met its burden to prove that its budgeted vegetation management expenses are reasonable.

467. While the Company offers some explanation for variance between historical budgeted and actual expense, its explanations are less specific and quantified than its description of the drivers for the increase in the Energy Supply O&M budget.

468. Also, unlike the Energy Supply O&M budget, the argument for reducing the Company's revenue requirement is not based solely on historical data. The Department has shown that in 2025, the Company is on pace to underspend its vegetation management budget by \$10.6 million.¹³⁴ Notably, this amount is

¹³² Docket No. E-002/M-25-27.

¹³³ *Id.* DOC Comments, Attachment DOC-1 at 2. (July 11, 2025)

¹³⁴ The data comparing actual 2025 year-to-date spending to forecasted amounts is especially persuasive

greater than the Department's proposed reduction for 2025. In other words, if this trend continued through the end of 2025, the Company would still recover more money for vegetation management through rates than it actually spent on this activity.

469. Further, a portion of the Company's explanation for why it did not spend its vegetation management budget was that it postponed vegetation management work to use the money for other activities. Ultimately, the fact that the Company did not need to perform vegetation management work at budgeted levels underscores the Department's argument that the Company had budgeted for more vegetation management was necessary. And the Company has failed to prove that that is not also the case in the 2025 Test Year and 2026 Plan Year.

470. The Company's argument with respect to its entire distribution O&M budget is also unpersuasive. Just as depreciation expenses for extended nuclear plants did not justify increased depreciation expense for the Sherco 3 and King plants, purported potential offsets in other distribution O&M categories do not justify setting rates based on an inadequately supported increase in vegetation management expenses.

471. The Commission should adopt the Department's recommendation and set the Company's authorized recovery of vegetation management expenses to a three-percent year-over-year increase of the 2024 actual totals, thereby reducing Xcel's revenue requirement by \$5.8 million in the 2025 Test Year and \$8.3 million in the 2026 Plan Year.

8. Exceptions to ALJ Report

Xcel noted that if the Department's recommendations were adopted, the 2025 and 2026 budgets would fall below 2024 actual expenses. Although the ALJ found that Xcel did not meet its burden of proof, the Company argued that the ALJ did not dispute the specific factors driving the 2025–2026 increases in vegetation management budgets.

Additionally, while Xcel cleared more miles than initially budgeted in 2025, a portion was due to preparation for distribution line rebuilds and therefore properly included in capital project costs.

Xcel reiterated its original recommended amounts for 2025-2026 vegetation management expenses.

on this issue. If trying to ascertain today's temperature, the reading on the thermometer is stronger evidence than arguments about the methodology supporting yesterday's meteorological forecasts.

9. Staff Analysis

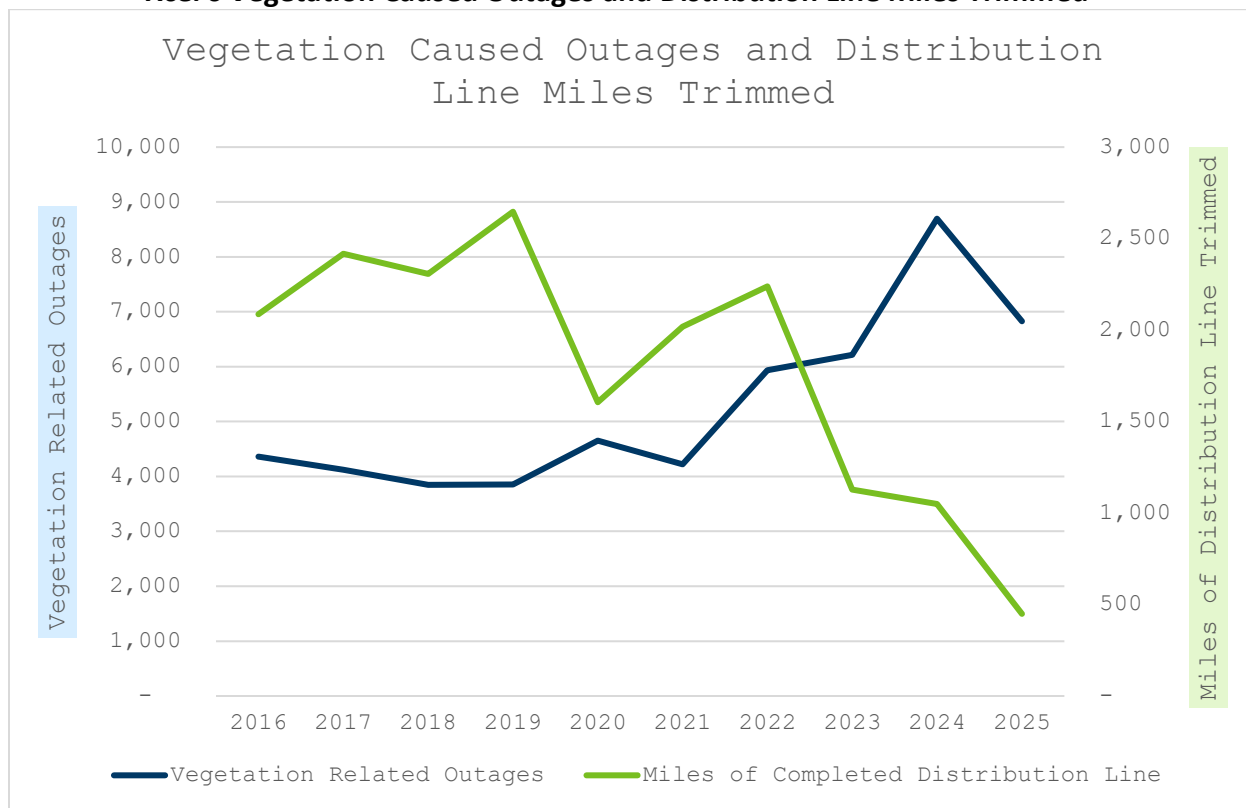
a. Financial Analysis

Staff notes that, if the Commission approves the Department’s proposed \$5.8 million downward adjustment for 2025, Xcel would be authorized to recover \$31.6 million in vegetation management expenses for that year. Using the Department’s annualization approach, based on Xcel’s actual expenses for the first 9 months of 2025, estimated total vegetation management expenses for 2025 would be \$26.8 million. Accordingly, the Department’s recommended \$31.6 million would result in an over-recovery of \$4.8 million.

b. Economic Analysis

While Staff agrees with the Department that Xcel has underused its vegetation management budget, this is somewhat of a catch-22 situation. If the Commission reduces the Company’s vegetation management budget, fewer miles of distribution line will likely get trimmed which will almost certainly result in more outages. Staff provides the following graphic showing the decline in the miles of distribution line with vegetation management trimmed over the past decade and the corresponding rise in the number of vegetation-related outages, compiled from data in the Company’s SRSQ reports.

Xcel’s Vegetation Caused Outages and Distribution Line Miles Trimmed¹³⁵



¹³⁵ Staff notes that data was taken from the following:

Staff is hesitant to endorse reducing the vegetation management budget given what an effective tool it is to prevent outages. However, if the Company is not spending the money included in rates customers are paying for a service they don't receive. Staff recommends that either as part of the Company's Integrated Distribution Plan or SRSQ Dockets the Commission explore additional accountability mechanisms that ensure Xcel is engaging in robust vegetation management.

10. Decision Options

1030 Approve Xcel's request to recover \$37.4 million of vegetation management expenses in 2025, and \$40.9 million in 2026. (Xcel)

1031 Remove \$5.8 million in vegetation management expenses in 2025, and \$8.3 million in 2026, reflecting a total amount of \$31.6 million in 2025 and \$32.6 million in 2026. (Department, ALJ)

I. Transmission O&M

1. Issue

Should the Commission approve Xcel's proposed Transmission O&M expenses?

2. Xcel Energy – Direct

Xcel described its Transmission O&M costs as related to operation and maintenance of the transmission system, which includes internal and contract labor, employee expenses, fees, materials, and other expenses. The Company noted that the majority of the budget is related to internal labor, as the employees are necessary to plan, construct, operate, and maintain the transmission system on a daily basis.

Xcel budgeted \$18.9 million of Transmission O&M expenses in 2025, and \$19.4 million in 2026, net of interchange billings. A breakout of historical, forecast (half year actuals and half year forecast) and budgeted expenses is supplied in Table 17 below.

-
- Docket E002/M-26-27, Xcel Energy Compliance Filing Part 2 of 3, April 1, 2026, Attachment J, Table 2, p. 9; Attachment K.
 - Docket E002/M-20-406, Xcel Energy 2019 Annual Service Quality Performance Report and Proposed Reliability Measures, April 2, 2020, Attachment 3, Table 2, at 4.
 - Docket E002/M-21-237, Xcel Energy, Compliance Filing, January 1, 2022, Tab 1, Minnesota SCI Cause Summary.

Table 17 - Transmission O&M Budget by Cost Category
NSPM-MN Electric Jurisdiction, Net of Interchange Billings to NSPW (\$M)¹³⁶

Cost Category	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2025 Budget	2026 Budget
Internal Labor	\$13.3	\$12.6	\$11.8	\$11.2	\$12.5	\$12.8
Contract Labor and Consulting	\$2.7	\$2.4	\$2.2	\$1.6	\$1.6	\$1.6
Employee Expenses	\$1.2	\$1.2	\$1.1	\$1.3	\$1.4	\$1.4
Fees*	\$2.3	\$2.4	\$2.5	\$0.7	\$0.7	\$0.7
Materials	\$1.1	\$0.8	\$0.9	\$0.8	\$1.1	\$1.1
Other	\$1.4	\$1.7	\$2.3	\$1.7	\$1.6	\$1.8
Total	\$22.0	\$21.0	\$20.7	\$17.3	\$18.9	\$19.4

Xcel noted lower 2025 budgeted expenses versus 2023, mostly due to a one-time 2023 cost to assist Great River Energy in rebuilding a line in northern Minnesota, as well as shifting certain fees to an Integrated System Planning (ISP) organization. As compared to 2024 forecast, Xcel indicated higher 2025 expenses, driven by increases in internal labor from a 3% annual base pay increase, as well as additional line inspections for wildfire mitigation.

Xcel indicated higher 2026 budgeted expenses versus 2025, primarily driven by a 3% internal labor base pay increase, as well as non-labor inflation assumptions for O&M items.

For internal labor, Xcel indicated that the 3% base pay increases in 2025 and 2026 apply to bargaining and non-bargaining employees. Additional internal labor increases in 2025 are associated with increased line inspections for wildfire mitigation.

For contract labor and consulting, Xcel indicated that the decreased expense in 2025 and 2026 from 2023 actuals was primarily due to the use of more internal labor for line inspection work.

For employee expenses, Xcel anticipated a slight increase from 2023 actuals, due to one-time 2023 reduction that is not expected to continue. Otherwise, 2025 and 2026 expenses are expected to remain stable.

For fees, Xcel indicated that North American Electric Reliability Corporation (NERC) and Midwest Reliability Organization (MRO) operation costs were shifted in 2024 to the Integrated System Planning (ISP) organization, while railroad permits, license fees, and other similar fees comprise the remaining expenses.

For materials, Xcel anticipated an increase in 2025 and 2026 from 2023 actuals due to Engineering and Supervision (E&S) rate changes, as well as increased materials for maintenance activities.

¹³⁶ Ex. DOC-5, IR No. 157, Attachment A (Golden Direct).

For Other, Xcel indicated a one-time cost in 2023 due to mutual aid work that is not in 2025 and 2026 budgets. Otherwise, 2026 expenses are expected to increase slightly due to non-labor inflationary increases.

3. Department of Commerce – Direct

The Department noted that Xcel recovered \$70.5 million in Transmission O&M expenses from 2022-2024 based on its last rate case. However, actual expenses for those years totaled only \$59.1 million. In response to an information request, Xcel explained the lower expenses were due to internal reorganizations coupled with cost saving measures, including shifting some Transmission-related costs to ISP and Legal Services.¹³⁷

Additionally, the Department indicated that actual Internal Labor costs declined \$0.7 million in 2022, \$0.8 million in 2023, and \$0.7 million in 2024, which reflects an overall trend of expense reductions in every category except “Other”.

The Department recommended a \$1.5 million reduction to Xcel’s Transmission O&M for 2025, and a \$2.0 million reduction for 2026, arguing that 1) the Company’s actual Transmission O&M consistently declined year-over-year in 2022-2024; 2) the Company’s reorganization and costs saving measures have resulted in significant expense reduction; and 3) analysis of trends in cost categories show that Internal Labor costs, which is the majority of Transmission O&M expenses, are decreasing rather than increasing.

4. XLI – Direct

XLI noted Xcel’s MN jurisdictional Transmission O&M expenses for the 2022-2024 period, as indicated in Table 18 below.

Table 18 – NSPM Projected and Actual Transmission O&M Expense (\$M)¹³⁸

Year	Forecast	Actual	% Change
2022	\$23.1	\$21.0	-9.1%
2023	\$23.5	\$20.7	-11.9%
2024	\$23.9	\$17.4	-27.2%
Total	\$70.5	\$59.1	-16.2%

XLI argued that Xcel has consistently overstated its MN jurisdictional Transmission O&M expense by an average of 16.2% each year, or a cumulative amount of \$11.4 million over the past three years.

XLI recommended a downward adjustment of 16.2% or \$3.1 million to the Transmission O&M expense for each year, or a cumulative amount of \$6.2 million in 2025-2026.

¹³⁷ Ex. DOC-5, ARG-D-2 (Golden Direct) (Xcel’s response to DOC IR 2145).

¹³⁸ Ex. XLI-2 at 50 (LaConte Direct).

5. Xcel Energy – Rebuttal

Xcel reaffirmed its original recommendation for its Transmission O&M expenses.

Xcel indicated that its 2025-2026 Transmission O&M budgeted amounts were only slightly higher than 2024 actual expenses of \$17.4 million, and below the 2021-2024 actual expense average of \$20.3 million.

Xcel contended that internal reorganizations from 2022-2024 impacted Transmission O&M expenses, with certain fees and internal labor being shifted into both ISP and Legal Services in 2023-2024. Additionally, NERC and MISO administrative fees, as well as facility study costs were shifted into ISP in 2024. The impacts of these shifts are detailed in Table 19 below.

Table 19: Reorganizational Impacts on Transmission’s O&M Expenses (\$M)¹³⁹

	2022	2023	2024
Actual vs. Approved Test year	\$2.1	\$2.8	\$6.6
Reorganization impacts			
Staffing shift to ISP		\$(1.5)	\$(1.5)
Transmission Business Relations to Legal		\$(0.4)	\$(0.4)
Fees shift to ISP			\$(1.9)
Facility study shift to ISP			\$(0.2)
Variance net of reorganization impacts*	\$2.1	\$0.9	\$2.6

Xcel indicated that the remainder of the variance was due to reduced O&M labor split rates.

Xcel contended that it was not appropriate to use 2024 actuals to determine 2025-2026 budgets, as Transmission already considered the impact of the internal reorganization efforts, and the Department failed to consider the substantial increase in capital investments that were already approved for 2025 and 2026. Xcel also noted increased material costs due to additional transmission assets in service and inflationary pressures, as well as increased employee training and travel.

6. Department of Commerce – Surrebuttal

The Department reaffirmed its original recommendation of a \$1.5 million downward adjustment for 2025, and a \$2.0 million downward adjustment for 2026, which results in a total amount of \$17.4 million for both years.

The Department contended that even after accounting for Xcel’s reorganization cost shifts in 2023-2024, the remaining \$3.5 million variance is the same as the Department’s 2025-2026 recommended adjustments.

¹³⁹ Ex. Xcel-43 at 5 (Berklund Rebuttal).

In response to an information request, Xcel indicated that its 2025 actual Transmission O&M expenses through September 30, 2025 totaled \$12.8 million (MN jurisdiction).¹⁴⁰ The Department annualized this amount to project through the end of 2025, which resulted in a total amount of \$17.1 million,¹⁴¹ which was below the Xcel's actual 2024 expenses of \$17.4 million, and below its 2025 forecasted expense of \$18.9 million.

7. XLI – Surrebuttal

XLI reaffirmed its original recommendation to reduce Transmission O&M expense by \$3.1 million for 2025, and \$3.1 million for 2026.

XLI argued that the reduced expense would shift the burden to Xcel to recover any potential higher expense through its true-up mechanism. As Xcel used a projected test year, XLI contended that it may lead to excessive rates due to forecasting errors or biased projections.

8. Initial Briefs

Xcel contended that while Transmission O&M expenses could be lower than forecasted, other business units could experience pressures that require greater O&M than forecasted, and the net result at the Company level could be closer to the authorized budget. Xcel argued that this flexibility is needed to effectively manage O&M at the Company level.

All other parties reaffirmed their existing recommendations and arguments.

9. Reply Briefs

XLI contended that Xcel's approved amount for Transmission O&M should track historical spending and not provide excess funds for the Company's discretionary use.

All other parties reaffirmed their existing recommendations and arguments.

10. ALJ Report

The ALJ noted the following in his findings:

487. As with the vegetation management expenses, however, actual data from 2025 bears out that the intervenors' concerns are valid. Evidence presented in Surrebuttal Testimony establishes that 2025 actual Transportation O&M expense more closely tracks, the Department's proposed level of recovery than the Company's projected budget. This data lends credibility to the Department's analysis and establishes that the Department's proposal is more reasonable than Xcel's.

¹⁴⁰ Ex. DOC-6, ARG-S-1 (Golden Surrebuttal).

¹⁴¹ (\$12.8 million over 3 quarters ÷ 3) x 4 = \$17.1 million.

488. Because the actual Transportation O&M expenditures were on pace to exceed XLI's proposed level of recovery, and because of the detailed analysis presented by the Company justifying its budget, XLI's proposal would inadequately compensate the Company for its Transportation O&M expenditures and should be rejected.

489. The Company has failed to meet its burden to prove that its proposed level of Transportation O&M expenses are reasonable for the 2025 Test Year and 2026 Plan Year. Accordingly, the Commission should adopt the Department's recommendation and authorize recovery of \$17.4 million for Transportation O&M expenses for 2025 and 2026.

11. Exceptions to ALJ Report

a. Xcel Energy

Xcel argued that the ALJ's recommendation failed to account for the increasing number of capital projects scheduled to be implemented in 2025 and 2026, such as MISO's Long-Range Transmission Planning Tranche 1 and 2.1 portfolios. Once constructed, the Company noted ongoing costs to operate and maintain these new assets.

Additionally, Xcel contended that Transmission O&M is just one facet of the overall O&M budget, and emphasized a need for budget flexibility to address unforeseen expenses in other O&M areas.

Xcel argued that the Commission should, at minimum, authorize additional Transmission O&M expense for 2026, as the ALJ's recommended amount of \$17.4 million for both 2025 and 2026 did not account for 2% employee base pay increases for 2026.

b. Xcel Energy Large Industrials

XLI contended that Xcel's explanations of why it has fallen short of budgeted projections does not justify no reduction to its expenses. Similar to Energy Supply O&M, XLI noted that "by merely showing that it has incurred, or may hypothetically incur, expenses, the utility does not necessarily meet its burden of demonstrating that it is just and reasonable that the ratepayers bear the costs of those expenses."¹⁴²

XLI reaffirmed Xcel's use of a projected test year, which could result in adverse impacts due to forecasting errors or biased projections.

XLI proposed the following modifications to the ALJ's findings.

488. Additionally, as XLI argues, simply because the Company can provide an explanation for these deviations does not justify recovery of the full budgeted costs. The Company's use of a projected, rather than historical, test year favors

¹⁴² In re Petition of N. States Power Co., 416 N.W.2d 719, 722-23 (Minn. 1987) (emphasis added).

~~the Company to the detriment of ratepayer in that it denies them the immediate cost savings that come with lower budgeted costs, and can produce excessive rates due to forecasting errors, or biased projected produce excessive rates due to forecasting errors, or biased projected. Because the actual Transportation O&M expenditures were on pace to exceed XLI's proposed level of recovery, and because of the detailed analysis presented by the Company justifying its budget, XLI's proposal would inadequately compensate the Company for its Transportation O&M expenditures and should be rejected.~~

489. The Company has failed to meet its burden to prove that its proposed level of Transportation O&M expenses are reasonable for the 2025 Test Year and 2026 Plan Year. Accordingly, the Commission should adopt ~~the Department's XLI's~~ recommendation and require the Company to reduce its Transmission O&M expense. authorize recovery of \$17.4 million for Transportation O&M expenses for 2025 and 2026.

12. Staff Analysis

Staff notes that, if the Commission approves the Department's proposed \$1.5 million downward adjustment, Xcel would be authorized to recover \$17.4 million in Transmission O&M expenses for both 2025 and 2026. This amount is the same as Xcel's 2024 actual expenses. Using the Department's annualization approach, based on Xcel's actual expenses from the first 9 months of 2025, estimated total Transmission expense for 2025 would be \$17.1 million.

13. Decision Options

- 1032 Approve Xcel's request to recover \$18.9 million of Transmission O&M expenses in 2025, and \$19.4 million in 2026. (Xcel)
- 1033 Remove \$1.5 million in Transmission O&M expenses in 2025, and \$2.0 million in 2026. (ALJ, Department)
- 1034 Remove \$3.1 million in Transmission O&M expenses in 2025, and \$3.1 million in 2026. (XLI)

J. Customer Care O & M

1. Issue

Should the Commission approve Xcel's proposed Customer Care O & M expenses?

2. Xcel Energy – Direct

Xcel described its Customer Care as providing service to approximately 3.8 million electricity customers and 2.2 million gas customers across its service territory in eight states. The business functions that comprise Customer Care were noted as 1) Billing Services, 2) Contact Center, 3)

Credit and Collections, 4) Measurement and Analytics, 5) Customer Policy and Assistance, and 6) Meter Reading, Field Collections, and Revenue Assurance.

Xcel noted its 2025 Customer Care O&M budget of \$27.3 million and 2026 budget of \$27.1 million followed a trend of decreased spending over the prior four years.

The Company indicated that the drivers for the expense decreases include anticipated reductions in meter reading expenses, continued deployment of AMI meters, automating work processes, and focusing on operational performance improvements and efficiencies. The decreases were offset by increased labor and postage rates, as well as waived credit card fees.

A breakout of Xcel's Customer Care O&M actual, forecast, and budget by business function is provided in Table 20 below.

**Table 20: Customer Care O&M by Business Area -
State of Minnesota Electric Jurisdiction (\$M)¹⁴³**

Director	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2025 Test Year	2026 Plan Year	2021-2026 Percentage Change
Billing Services	\$5.9	\$6.3	\$6.8	\$8.0	\$9.2	\$10.1	71.3%
Contact Center	\$3.7	\$4.5	\$4.3	\$4.0	\$4.0	\$4.1	13.0%
Credit and Collections	\$2.1	\$2.2	\$2.3	\$2.2	\$2.5	\$2.6	20.0%
Cust Care, Measurement & Analytics	\$1.2	\$1.3	\$1.3	\$3.2	\$1.3	\$1.5	22.2%
Customer Policy and Assistance	\$0.5	\$0.7	\$0.7	\$0.6	\$0.8	\$0.7	26.6%
Meter Reading and Field Collections	\$18.7	\$15.4	\$14.1	\$11.1	\$9.5	\$8.2	-56.1%
Total Customer Care O&M	\$32.1	\$30.5	\$29.5	\$29.0	\$27.3	\$27.1	-15.5%

Regarding Billing Services, Xcel attributed the 2021-2026 increased expense due to \$3 million in waived credit card fees, and \$1.4 million from annual postage increases, offset by \$0.2 million in labor due to billing and remittance processing restructuring.

Regarding Contact Center, Xcel attributed the 2021-2026 increased expense of \$0.5 million as due to annual wage increases, offset by decreased staffing needs due to increased customer use of automated interaction channels such as Interactive Voice Response (IVR).

For Credit and Collections, Xcel attributed the 2021-2026 increased expense of \$0.4 million as due to annual wage increases and increased headcount to maintain service level. This increase was offset by anticipated lower collection agency commissions, and increased use of cost-effective and efficient customer outreach methods, such as email and calls.

¹⁴³ Ex. Xcel-38 at 17. (Lindgren Direct)

For Customer Care, Measurement, and Analytics, Xcel attributed the 2021-2026 increased expense of \$0.3 million as mainly due to annual wage increases.

For Customer Policy and Assistance, Xcel attributed the 2021-2026 increased expense of \$0.1 million as mainly due to annual wage increases and additional staffing related to increased volume and complexity of complaints and investigations.

For Meter Reading and Field Collections, Xcel attributed the 2021-2026 decreased expense of \$10.5 million as related to recent negotiations with its vendor. Xcel noted removing an annual cost escalation factor tied to economic indicators, which will continue through the remainder of the contract, and be a significant benefit in managing meter reading costs for the next several years. Additionally, Xcel indicated that negotiations resulted in lower meter reading services fees starting in 2022, which would continue for the remaining contract.

Xcel indicated that its Voice of the Customer (VOC) Transaction Survey is the most direct measure of customer satisfaction with Customer Care services. The Company indicated the results in Table 21 below.

Table 21 - Voice of the Customer Transaction Survey – Minnesota Electric¹⁴⁴

	2021	2022 Q1-Q2	2022 Q3-Q4	2023	2024 Jan-Aug
Overall Satisfaction with Transaction with Transaction	82%	83%	79%	76%	71%
IVR Overall Satisfaction	82%	80%	77%	78%	68%

Xcel attributed the decreased 2023-2024 results to longer call response time combined with the need to address large, extended storm outages, as discussed in the annual service quality filing.¹⁴⁵ Additionally, the Company indicated that post-COVID trends have made it difficult to fill front-line customer service jobs and retain those employees.

3. Department of Commerce – Direct

The Department requested that Xcel provide a summary and data on residential and C&I customer complaints from 2020-2025, in addition to any survey results on C&I customer satisfaction in the same time period.

4. XLI – Direct

XLI noted that, starting in 2022, at least 23 Building Owners and Managers Association (BOMA) Greater Minneapolis members experienced issues with Xcel’s customer service, including

¹⁴⁴ Ex. Xcel-38 at 12. (Lindgren Direct)

¹⁴⁵ *In the Matter of Xcel Energy’s 2024 Annual Safety, Reliability, and Service Quality Standards Report and Proposed SAIFI, SAIDI, and CAIDI Reliability Standards for 2024*, Docket No. E-002/M-25-27.

delayed and inaccurate bills, misapplied payments, and ineffective communications and resolutions.

When Xcel was alerted to the severe delay and significant bills, the Company responded "this has been escalated and passed up as far as we can. Unfortunately, this is the state of our billing currently."¹⁴⁶ When members raised these issues of being billed for two service periods in one month, Xcel responded that it was "still catching up on billing for a lot of customers."¹⁴⁷

Additionally, XLI indicated that other BOMA members experienced issues with net energy billing and application of offsetting credits, as well as improper payment processing, late payment fees and erroneous disconnection notices.

With regard to customer service, XLI identified several issues identified by BOMA members that have not been resolved, including:¹⁴⁸

- Delayed implementation of a requested change to on and off-peak billing, resulting in at least two years of incorrect billing;
- A prolonged refund and rebill process;
- Lack of proper Documentation as to Xcel Energy's claimed inability to issue rebill statements;
- Receipt of erroneous bills;
- Inadequate responses from Xcel Energy staff (i.e, assuring customers that issues have been escalated but issues remain unaddressed); and
- Denial of retroactive rate credits a year after the error due to Xcel Energy's own system limitations.

XLI argued that per Minn. R. 7810.1400, subp.1, Xcel's bills must be rendered regularly to forecast accurate monthly amounts for year-to-date tracking, budgeting, and reconciliation purposes. Additionally, Xcel's rates and billing practices must meet the requirements of Chapter 7820 of Minnesota Rules, including but not limited to 7820.3200 through 7820.3800.

As Xcel's billing and customer service issues arose to an inordinate degree in 2024, XLI argued that Xcel has been in violation of these billing and customer service prescriptions.

XLI recommended the following regarding Xcel's billing and customer service issues:

- Require NSPM to provide a plan, in writing, for resolution and remediation of the issues identified above.

¹⁴⁶ See BOMA Public Comment (Jul. 2, 2025).

¹⁴⁷ *Id.*

¹⁴⁸ *In the Matter of Northern States Power Co., d/b/a Xcel Energy's 2024 Annual Safety, Reliability, and Service Quality Report*, Docket No. E-002/M-25-27, BOMA Initial Comment (Jul. 11, 2025).

- Reduce NSPM's ROE by 10-basis points¹⁴⁹ to reflect the Company's failure to provide customer service as required by Minnesota Statute; and
- Disallow recovery of NSPM's Customer Care O&M expense until NSPM demonstrates that it has remedied its billing and customer service issues. Removing the customer service expense in 2025 reduces NSPM's revenue requirement by \$27.3 million in 2025 and \$27.1 million in 2026.

5. Xcel Energy – Rebuttal

Xcel indicated that its Billing Department had partnered with the Account Management team to run bi-weekly lists to identify BOMA member accounts that may need further review. The lists and review process were designed to capture account anomalies involving billing delays or concerns before needing to be corrected.

Beginning in April 2025, Xcel requested that BOMA identify the specific members raising these concerns, but BOMA has not supplied this information. While Xcel addressed BOMA's complaint in detail,¹⁵⁰ the Company indicated that without information on specific customers, it is more difficult to identify and resolve customer concerns.

Additionally, Xcel noted a Commission Order¹⁵¹ opening an investigation into this matter, and the Company's requirement to provide monthly updates on the number of unresolved billing issues, new billing errors, and steps taken to correct existing errors and prevent new ones. The Company acknowledged that due to a variety of coinciding causes, the number of residential customer billing complaints increased significantly since 2022, and are putting a high priority on restoring performance.

6. Department of Commerce – Surrebuttal

In response to the Department's request in Direct Testimony, Xcel supplied an Agent and IVR survey to gauge customer transaction satisfaction. The results are indicated in Table 22 below.

¹⁴⁹ Further discussion on this matter is discussed in the Cost of Capital sections of these briefing papers.

¹⁵⁰ See [Department IR No. 1200, and Company Response](#). (July 14, 2025)

¹⁵¹ *In the Matter of an Investigation into Xcel Energy's Residential Billing Errors*, ORDER INITIATING INVESTIGATION. Docket No. E,G-002/CI-25-341. (September 10, 2025)

Table 22: Xcel Customer Transaction Satisfaction Survey Results¹⁵²

Year	IVR Survey		Agent Survey	
	Business	Residential	Business	Residential
2016	79%	83%	83%	87%
2017	71%	83%	83%	86%
2018	67%	82%	86%	85%
2019	70%	81%	86%	86%
2020	69%	83%	83%	84%
2021	63%	83%	88%	81%
2022	85%	79%	72%	80%
2023	77%	78%	67%	78%
2024	76%	72%	64%	70%
2025*	75%	76%	81%	80%

* Information for 2025 is year-to-date up to July 21, 2025

The Department noted a decline in Customer Transaction Satisfaction Survey results over the 2016 – 2025 time period for residential customers in both the IVR and Agent Survey, while the Agent Survey showed a decline in customer transaction satisfaction for business customers.

Additionally, Xcel supplied data on customer complaints for residential, commercial, industrial and government for 2015-2025, which are supplied in Table 23 below.

Table 23: Xcel Customer Complaints¹⁵³

Year	Residential	Commercial	Industrial	Government	Total
2015	119	10	0	0	129
2016	92	10	0	0	102
2017	108	5	0	0	113
2018	236	11	1	0	248
2019	376	20	0	0	396
2020	218	19	1	1	239
2021	445	37	2	0	484
2022	602	31	1	1	635
2023	733	25	1	0	759
2024	1436	31	1	0	1468
2025*	612	24	2	0	638

The Department noted an increasing trend of total complaints for Residential and Commercial customers after 2020.

¹⁵² Ex. DOC-19, APB-S-2, Corrected Tables 2 & 3 at 7 of 8 (DOC Information Request No. 1199, Corrected Supplement). (Bahn Direct)

¹⁵³ Ex. DOC-19, Table 4 at 5. (Bahn Direct)

The Department recommended opening a separate Docket to address the C&I customers increase in billing complaints and decline in customer satisfaction, or that Xcel include information on the scope and nature of C&I billing-related errors and complaints in its monthly reports in Docket No. E-002/CI-25-341 going forward.

7. XLI – Surrebuttal

XLI contended that Xcel attempted to shift the burden of resolving the billing and customers service issues onto BOMA members by requiring them to identify their accounts. Additionally, as the Commission opened an investigation into Xcel’s billing-related complaints, XLI argued that Xcel had been negligent not only in addressing BOMA billing errors, but residential billing errors as well.

XLI recommended that the Commission expand its investigation to include Xcel’s commercial billing practices, and disallow recovery of Customer Care costs until all of the customer billing issues are remedied. Otherwise, XLI reaffirmed its original recommendations.

8. Initial Briefs

Xcel indicated that, since April 2025, it repeatedly requested that BOMA identify which members it alleged are experiencing billing and customer service issues and whether BOMA believed those issues are unresolved.¹⁵⁴

Xcel argued that BOMA and XLI’s reluctance to provide this information is contrary to requests for quick resolution and impeded Xcel’s ability to ensure specific customer concerns raised by BOMA have been addressed. Therefore, the prohibition of recovery of all Customer Care expenses is unreasonable.

Additionally, Xcel contended that XLI did not provide analysis of the portion of Customer Care expense that related to the alleged billing issues or customers impacted, and the overall Customer Care O&M budget reflects more than just the billing and customer service Departments.

All other parties reaffirmed their existing recommendations and arguments.

9. Reply Briefs

XLI remained concerned of Xcel’s deflection of its statutory responsibility to its customers, and noted that the Commission recently ordered an expansion of its investigative Docket into residential billing and customer service issues to cover C&I customers.¹⁵⁵

¹⁵⁴ For example, XLI referenced an erroneous bill for \$37.4 million received by a BOMA member. Xcel understands that issue was immediately resolved and the bill amount corrected.

¹⁵⁵ *In the Matter of Xcel Energy’s 2024 Annual Safety, Reliability, and Service Quality Report*, ORDER ACCEPTING REPORTS AND SETTING ADDITIONAL REQUIREMENTS, at Ordering Paragraph 17. Docket No. E-002/M-25-27. (March 27, 2026).

XLI reaffirmed its original recommendation to disallow all Customer Care O&M expense from rate base, as Xcel failed to meet even the bare minimum for customer service prescribed by Minnesota Rules 7820.3200 through 7820.3800.

All other parties reaffirmed their existing recommendations and arguments.

10. ALJ Report

The ALJ noted the following in his findings:

497. Minn. R. 7820.3200 - .3800 impose certain requirements on electrical utilities' billing practices. While XLI has not identified which specific provision of these rules it believes Xcel is out of compliance with, it should not be controversial for customers to expect their bills to be reasonably accurate.

499. Further, disallowance of any entire category of O&M costs actually incurred by the Company, totaling more than \$27 million annually, would be a drastic remedy even if XLI's allegations were credited.

500. Xcel and XLI have agreed that the Commission's ongoing investigation into residential billing errors in Docket No. E, G-002/CI-25-341 should be expanded to include commercial customers such as BOMA. That proceeding provides an opportunity for the Commission to develop a more robust record on commercial billing errors and, if appropriate, tailor a more appropriate and targeted remedy than disallowance of all of the Company's Customer Care O&M costs in this proceeding.¹⁵⁶

501. The Company has met its burden to prove that its Customer Care O&M costs are appropriate for recovery in the requested amount, and the Commission should approve these costs.

11. Exceptions to ALJ Report

a. Xcel

Xcel agreed to the ALJ's recommended amounts and indicated of remaining committed to resolving all of its customers' billing concerns.

b. XLI

XLI contended that Xcel's egregious customer service failures should not go unpenalized, as customers of a monopoly cannot choose another provider and should not accept the problems outlined in XLI's testimony.

¹⁵⁶ This Finding should not be interpreted as suggesting that this may not be an appropriate remedy in Docket No. 25-341 once the record is fully developed.

As Xcel previously corresponded with BOMA members about these issues, XLI argued that Xcel has all the information, if not more, on the affected BOMA members than BOMA itself.

Furthermore, XLI noted that Xcel's recent compliance filing shows that on average, more than double the number of C&I customers have been affected by controllable billing factors, such as cancelled invoices, in 2026 than in 2023,¹⁵⁷ and the number of impacted customers has only grown year over year.

XLI proposed the following modifications to the ALJ's findings.

493. The Company has failed to provide basic customer service to the members of BOMA Greater Minneapolis on an ongoing basis, which has resulted in significant adverse impacts for its customers.

~~499. BOMA, however, has not provided the Company with information to identify which customers are potentially affected by billing errors. It is an understandable position that customers should not shoulder the burden of addressing alleged errors caused by their utility. That being said, it is difficult to see how Xcel could be expected to remedy any errors if it is not provided information sufficient to investigate the issue. Relevant to the determination here, the absence of this information precludes making findings that specify the scope and magnitude of any alleged billing issues.~~

~~500.499. The Company should not be allowed to recover Customer Care O&M expenses where it cannot meet its statutory obligations to its customers. Further, disallowance of any entire category of O&M costs actually incurred by the Company, totaling more than \$27 million annually, would be a drastic remedy even if XLI's allegations were credited.~~

~~501.500. The issues experienced by these customers are well known, so much so that the Commission has opened a separate Docket into this matter for residential issues, Docket No. 25- 341. At the Commission's February 19, 2026 agenda meeting, the Commission determined to expand Docket No. 25-341 to include C&I customers, and require the Company to conduct the same reporting for C&I customers as it currently does for Residential customers. Xcel and XLI have agreed that the Commission's ongoing investigation into residential billing errors in Docket No. E, G-002/CI 25-341 should be expanded to include commercial customers such as BOMA. That proceeding provides an opportunity for the Commission to develop a more robust record on commercial billing errors and, if appropriate, tailor a more appropriate and targeted remedy than disallowance of all of the Company's Customer Care O&M costs in this proceeding.~~

¹⁵⁷ *In The Matter Of An Investigation Into Xcel Energy's Residential Billing Errors*, Docket No. E,G002/CI-25-341, Compliance Filing – Monthly Update at 16. (March 16, 2026)

~~502.501.~~ The Company has not met its burden to prove that its Customer Care O&M costs are appropriate for recovery in the requested amount, and the Commission should not approve these costs.

12. Staff Analysis

a. Financial Analysis

Staff concurs with Xcel and the ALJ that the Company should be able to recover its proposed Customer Care O&M costs, as XLI's proposed disallowance would be drastic and punitive.

b. Economic Analysis

Customer Complaints to CAO:

Following its 2020, 2023, 2024, and 2025 QSP reports, Xcel incurred \$1 million penalties for exceeding the Customer Complaint threshold. The QSP Customer Complaint Standard was <0.2059 complaints per 1,000 customers, which was a maximum of 388 complaints in 2025. Xcel reported 1,240 customer complaints to the PUC; although this is a 16% decrease from 2024.¹⁵⁸

Payment Plans:

Per CAO, Xcel customers have stated that agents have not been flexible with payment arrangements, despite being ordered to do so by the Commission.¹⁵⁹ There are regular complaints about Xcel's customer service teams, more so than other utilities' teams, even accounting for Xcel's size.

Billing Error Complaints:

The ALJ addresses the currently open Commission investigation into customer complaints regarding billing errors (Docket No. 25-341). 25-341 was opened after a number of complaints from BOMA members. The billing errors themselves will be settled in Docket No. 25-341. Recently, the investigation has expanded to include commercial and industrial customers.¹⁶⁰ In its Exceptions, the Company says that it "remains committed to resolving all of its customers' billing concerns."¹⁶¹ Staff is supportive of the Commission investigation, which Staff believed would not have been ordered unless there were billing concerns.

¹⁵⁸ Docket No. E, G-002/M-12-383, 2025 Xcel QSP Report, May 1, 2026, Table 1, p. 2.

¹⁵⁹ *In the Matter of Xcel Energy's 2023 Annual Safety, Reliability and Service Quality Report*, Docket No. E-002/M-24-27, ORDER ACCEPTING REPORTS AND SETTING ADDITIONAL REQUIREMENTS, Ordering Paragraph 26 at 13. (January 13, 2025)

¹⁶⁰ *In the Matter of Xcel Energy's 2024 Annual Safety, Reliability, and Service Quality Report*, Docket No. E-002/M-25-27, ORDER ACCEPTING REPORTS AND SETTING ADDITIONAL REQUIREMENTS, Ordering Paragraph 17 at 11. (March 27, 2026)

¹⁶¹ Xcel Exceptions to the ALJ Report, May 15, 2026, p. 40.

13. Decision Options

1035 Approve Xcel's request to recover \$27.3 million of Customer Care O&M expenses in 2025, and \$27.1 million in 2026. (Xcel, ALJ)

1036 Remove all Customer Care O&M expenses for 2025 and 2026. (XLI)

K. General Allocator

1. Issue

Should the Commission approve Xcel's proposed General and Interchange Agreement Allocator expenses?

2. Xcel Energy – Direct

Xcel described the General Allocator as being used to allocate common costs when neither direct nor indirect measures of cost causation can be used to assign costs to operating companies and/or affiliates. For example, the General Allocator is used for the time an Xcel Energy Services (XES) employee works on a Company securities filing, and the associated costs are allocated across the overall enterprise, including the non-regulated affiliates and operating companies. The General Allocator in Minnesota is comprised of three factors: NSPM Total Assets, NSPM Total Revenues, and NSPM FTE Hours.

Xcel indicated that, per a March 2011 Commission Order,¹⁶² the Company was required to use FTE Hours in place of Number of employees for two primary reasons:

First, the labor component of the general allocator is designed in a way that results in no labor-related costs being allocated to unregulated subsidiaries that do not have their own payrolls. This is unreasonable on its face since no business can have labor costs of zero. Similarly, allocating the full costs of each employee to the subsidiary on whose payroll he or she appears overstates the labor costs of that subsidiary and understates the labor costs of any other subsidiary for whose benefit the employee occasionally performs services.¹⁶³

Xcel also noted that the Commission required the Company to continue using FTE hours in its 2021 rate case.¹⁶⁴ However, Xcel argued that the use of the Number of Employees is more

¹⁶² *In the Matter of Northern States Power Company's Cost Allocation Procedures and General Allocator*, Docket No. E,G002/AI-10-690, ORDER REQUIRING CHANGE IN GENERAL ALLOCATOR AND REQUIRING FILINGS (March 15, 2011); ERRATUM NOTICE. (March 25, 2011).

¹⁶³ *Id.* at 1-2, quoting *In the Matter of the Application of Northern States Power Company d/b/a Xcel Energy for Authority to Increase Rates for Electric Service in Minnesota*, Docket No. E-002/GR-08-1065, FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER at 21. (Oct. 23, 2009)

¹⁶⁴ *In the Matter of the Application of Northern States Power Company, dba Xcel Energy, for Authority to Increase Rates for Electric Service in the State of Minnesota*, Docket No. E-002/GR-21-630, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 106-108. (July 17, 2023)

appropriate to ensure that customers in the Minnesota jurisdiction are paying for their portion of costs attributable to supporting NSPM.

Xcel cited several additional reasons to change to Number of Employees, as detailed below.

First, Xcel indicated that Number of Employees reasonably apportions costs amongst the affiliates commensurate with costs created by each affiliate. As the Number of Employees for an affiliate increases, more service company labor hours and costs will need to be spent to support that affiliate's payroll, Human Resources, Technology Services, and other needs.

Second, Xcel indicated that Number of Employees provides for a more consistent and stable metric, as FTE Hours can vary greatly depending on projects worked on during a particular period.

Third, the Number of Employees allocator would ensure costs incurred at the XES (service company) level to support other entities' functions are properly allocated, because these XES functions are driven more by the number of employees in an operating company rather than the hours worked by each employee.

Lastly, Xcel noted the high variability of FTE Hours versus Number of Employees that were allocated to non-regulated affiliates year-over-year, as illustrated in Table 24 below.

Table 24 – Non-Regulated Allocation Ratios by Methodology¹⁶⁵

Year	Number of Employees	FTE Hours
2023	0.15%	0.09%
2022	0.15%	0.05%
2021	0.17%	0.04%
2020	0.18%	0.18%
2019	0.18%	0.03%

Xcel continued to expect the trend of its non-regulated affiliates being allocated a higher percentage based on Number of Employees as compared to FTE Hours for the duration of the 2025 test year. Further, the ratio is 61% more costs assigned to non-regulated affiliates under the Number of Employees method than the FTE Hours method for 2023.

Additionally, Xcel indicated that in performing the FTE Hours adjustment calculation, hours charged to allocators that use the Number of Employees method are excluded so as not to skew the FTE Hours results. By excluding these hours, the FTE Hours calculation does not accurately reflect the level of support provided to each company by the Service Company.

¹⁶⁵ Ex. Xcel-49, at 22. (Doyle Direct)

Therefore, Xcel contended that the FTE Hours methodology does not allow all hours worked to support NSPM operations to be included in the ratio calculation, resulting in costs being under-allocated to Minnesota customers, and not recoverable by the Company.

3. Department of Commerce – Direct

The Department recommended denial of Xcel’s proposal to use Number of Employees instead of FTE hours in allocation calculations, which would reduce 2025 and 2026 test year administrative and general expense by \$6.3 million and \$6.5 million, respectively.

The Department noted that the Commission’s March 2011 Commission Order reasoned that Xcel’s cost allocation procedures were over-allocating costs to Minnesota ratepayers.¹⁶⁶ With regard to the current proposal, the use of Number of Employees allocated \$6.3 million more in 2025 test year costs and \$6.5 million more in 2026 test year costs to Minnesota ratepayers than if Xcel had used the Commission’s required FTE Hours methodology.¹⁶⁷

With regard to the use of Number of Employees, the Department contended that labor allocations should reflect how employees spend their time, rather than just which affiliate they primarily work for. Additionally, the goal of cost allocation is to ensure accuracy and that the entity causing the cost is paying for it, including non-regulated parts of Xcel’s business.

The Department argued that the use of FTEs is a reasonable and fair cost allocation method, and Xcel could update its FTE hours more often if changes or updates are needed.

The Department indicated that assigning 12 common officers to Xcel Energy Inc. results in a factor of 0.1501 percent of total headcount to non-regulated subsidiaries. Therefore, none of the associated costs with the remaining 99.8499% of employees will be allocated to non-regulated affiliates if they do not have their own payroll.

4. Xcel Energy – Rebuttal

Xcel contended that the number of employees more directly correlates to service company costs required to support an affiliate. Additionally, FTE Hours can vary greatly depending on the projects during a particular period, resulting in variation depending on which entity has the most or largest projects during that time period. In contrast, the Number of Employees is a more stable metric as it more accurately measures the driver of costs on a reasonably current and stable basis.

Xcel argued that it is not feasible to update the allocator often enough, as there are numerous projects at a given time and they begin and conclude on a variety of timelines. Additionally, using the FTE Hours methodology already requires additional administration to treat it

¹⁶⁶ *In the Matter of Northern States Power Company’s Cost Allocation Procedures and General Allocator*. Docket No. E,G-002/AI-10-690, ORDER REQUIRING CHANGE IN GENERAL ALLOCATOR & FILING REQUIREMENTS at 1–2. (Mar. 15, 2011)

¹⁶⁷ Ex. Xcel-7, Vol. 4 Workpapers, IX, Interim Adj. 15 at 1.

differently than all other jurisdictions, as well as not being able to recover all of its allocated costs.

Xcel noted that only XES employees are allowed to allocate labor costs using the General Allocator or any other allocator, so concerns of labor cost allocation to the 99.8499 percent of employees who are not officers are irrelevant.

Xcel argued that it is not reasonable to continue a methodology that inaccurately allocates costs to Minnesota customers, and is unreasonable because it does not accurately reflect cost causation.

5. Department of Commerce – Surrebuttal

The Department continued to disagree with Xcel's assertion that the number of employees for each Company affiliate is most representative measure of the level of support that XES (the service company) employees provide to each affiliate. The Department argued that common sense dictates that labor allocations should reflect how employees spend their time rather than just which affiliate employs them.

While the Department agreed that the use of number of employees in the General Allocator may yield less fluctuation than using FTEs, it does not make the method more accurate or cost-causative in allocating indirect costs. Additionally, the Department argued that as FTEs account for how employees spend their time, not just the affiliate they primarily work at, the FTE methodology is more cost causative than using the number of employees.

The Department continued to contend that Xcel's proposed General Allocator use of the number of employees does little to address the Commission's concerns about under-allocating costs to non-regulated affiliates that do not have their own payroll and over-allocating costs to Minnesota ratepayers.

6. ALJ Report

The ALJ noted the following in his findings:

510. The Company has not met its burden to demonstrate that its proposed change would result in just and reasonable rates.

511. The Commission, in 2011, previously considered this issue and determined that the FTE Hours methodology was appropriate. The record in this proceeding does not warrant departing from that practice.

512. The Department has substantiated its concern that the Number of Employees methodology would result in over-allocation to the Minnesota jurisdiction. The size of the jurisdiction makes it likely that it would more often be the case that employees assigned to NSPM would perform work supporting other affiliates than employees assigned to other affiliates would perform work supporting NSPM.

Smaller affiliates, with few or no employees would almost certainly be the beneficiary of the Number of Employees methodology.

513. Regardless of whether there is merit to Xcel's argument that the FTE Hours methodology may result in NSPM customers not being allocated the full labor costs used to support them, such concerns cannot justify over-correcting and adopting a methodology that would systemically over-charge NSPM under a regulatory paradigm where all doubt is to be resolved in favor of the consumer.

514. The Commission should reject the Company's proposal to use the Number of Employees methodology for its general allocator.

7. Exceptions to ALJ Report

Xcel continued to contend that the use of FTE hours routinely allocated more costs to regulated entities than unregulated entities, and does not accurately reflect the level of support provided to each company by the Service Company.

Additionally, Xcel argued that the Number of Employees methodology provides the most consistent, cost-causative, and stable metric to allocate costs.

8. Staff Analysis

Staff notes this matter was also disputed in Xcel's 2021 rate case. In that proceeding, Xcel made similar arguments for the use of number of employees in its general allocator. In ordering Xcel to calculate its general service allocator based on FTEs in lieu of labor headcount, the Commission held as follows:

First, the labor component of the general allocator is designed in a way that results in no labor-related costs being allocated to unregulated subsidiaries that do not have their own payrolls. This is unreasonable on its face since no business can have labor costs of zero. Similarly, allocating the full costs of each employee to the subsidiary on whose payroll he or she appears overstates the labor costs of that subsidiary and understates the labor costs of any other subsidiary for whose benefit the employee occasionally performs services.¹⁶⁸

Staff concurs with the Department and the ALJ's conclusion that Xcel has not provided new information, nor demonstrated that use of the Number of Employees method of allocating employee work would avoid the unreasonable results identified by the Commission Order in 2011.

¹⁶⁸ *In the Matter of Northern States Power Company's Cost Allocation Procedures and General Allocator*, Docket No. E,G-002/AI-10-690, ORDER REQUIRING CHANGE IN GENERAL ALLOCATOR AND REQUIRING FILINGS, (March 15, 2011) at 1-2 (citing Findings of Fact, Conclusions of Law, and Order, at 20).

9. Decision Options

1037 Approve Xcel's proposal to use Number of Employees in its General Allocator for setting rates. (Xcel)

1038 Order Xcel to use FTE hours for its General Allocator calculations which results in 2025- 2026 MN jurisdictional revenue requirement reductions of \$6.3 million for 2025, and \$6.5 million for 2026. (Department, ALJ)

L. Interchange Agreement Allocator

1. Issue

Should the Commission approve Xcel's proposed interchange agreement allocator expenses?

2. Xcel Energy – Direct and Supplemental Direct

Xcel described the Interchange Agreement as a FERC approved contractual mechanism to share annual system generation (production) and transmission costs between the Company and Northern States Power Wisconsin (NSPW), with the goal of representing these two company systems as a single joint operation.

Under the Interchange Agreement formulas, approximately 16% of the Company's system costs are allocated to NSPW, and 84% of NSPW system costs are allocated to the Company, because approximately 84% of the integrated system load is the Company load, and 16% is NSPW load. The allocation percentages are determined by allocation factors updated by the Company and filed with FERC annually.

Additionally, the Interchange Agreement allocates Company and NSPW revenues such as those from transmission services or off-system wholesale sales. Similarly, Interchange Expense reflected NSPW budgeted payments for its share of generation and transmission asset costs and associated expenses.

The MYRP Forecast Interchange Revenue and Interchange Expenses were calculated using 2025-2026 Company and NSPW budget information, similar to previous rate cases.

In supplemental testimony, Xcel provided a corrected interchange agreement demand allocator calculation in Schedule 17, which impacted the proposed revenue requirement.

3. Department of Commerce – Direct

The Department indicated that Xcel's corrected demand allocators did not include updated transmission loss multipliers.

The Department provided a comparison of Xcel's Interchange Agreement demand allocators as provided in supplemental testimony, versus the demand allocators that were inclusive of an

update to transmission loss multipliers (2025 Interchange Agreement). The relevant information is displayed in Table 25 below.

Table 25: Xcel's Interchange Agreement Demand Allocators¹⁶⁹

	2025		2026	
	NSPM	NSPW	NSPM	NSPW
Supplemental Direct ¹⁷⁰	84.0551%	15.9449%	84.2171%	15.7829%
2025 Interchange Agreement ¹⁷¹	84.0693%	15.9307%	84.0693%	5.9307%

In response to an Information Request, Xcel indicated that the 2025 Interchange Agreement demand allocators would increase its 2025 revenue requirement by \$0.3 million and decrease its 2026 revenue requirement by \$2.9 million. Additionally, Xcel noted that the 2025 Interchange Agreement demand allocator applied to 2026 is not representative of the cost of service and would not be an appropriate basis for the calculation of 2026 plan year costs and revenues.¹⁷²

The Department argued that Xcel should update its interchange allocators, as Xcel's 2026 proposed allocators were based on forecasted data inclusive of older transmission loss allocators, whereas the 2025 Interchange Agreement included the FERC approved transmission loss allocators. Additionally, the Commission required Xcel to use its FERC approved 2022 Interchange Agreement allocators for the 2022-2024 test years in the previous rate case.¹⁷³

The Department's recommended adjustments result in an increased revenue requirement for 2025 of \$0.3 million, and a decrease of \$2.9 million for 2026.

4. Xcel Energy – Rebuttal

While Xcel agreed that the final approved demand allocation for the Interchange Agreement was different than the filed cost of service, it represented only one component of the NSPW Interchange Agreement billings.

Additionally, the Department's proposed adjustment is only applicable to 2025; and is not representative of the 2026 plan year cost of service based on 2026 plan year costs and revenues.

¹⁶⁹ Ex. DOC-1 at 31. (Johnson Direct)

¹⁷⁰ Ex. Xcel-18, BCH-D-17 (Halama Supplemental Direct).

¹⁷¹ Per Xcel's response to DOC IR 1160; see Ex. DOC-1, MAJ-D-4 at 1 (Johnson Direct)

¹⁷² *Id.*

¹⁷³ *In the Matter of the Application of Northern States Power Company, dba Xcel Energy, for Authority to Increase Rates for Electric Service in the State of Minnesota*, Docket No. E-002/GR-21-630, FINDINGS OF FACT, CONCLUSIONS, & ORDER at 108-109. (July 17, 2023)

5. Department of Commerce – Surrebuttal

The Department asked Xcel to explain the other components of the Interchange Agreement billings. While Xcel listed other items, the Department noted that it did not provide any actual updates.¹⁷⁴

The Department continued to affirm its original recommendation for Xcel to update its interchange allocators based on FERC’s most recently approved Interchange Agreement Allocators for its 2025 and 2026 test years.

6. Initial Briefs

Xcel argued that to apply the 2025 demand allocator to the forecasted 2026 interchange agreement costs would not accurately reflect the 2026 cost of service and forecasted peak demands in the 2026 plan year.

For the 2025 test year, the demand allocator was computed based on 18 months of actuals (through June 2024) and 18 months of projected peak demands (through December 2025), which was similar to how the allocator was computed and accepted by FERC in Docket ER25-1620-000.¹⁷⁵

Additionally, Xcel argued that the annual demand allocator updates filed and accepted by FERC have had an upward trend in the NSPM allocation over recent years, which further supported the reasonableness of Xcel’s proposed 2026 demand allocator.

Xcel noted that incorporating the updated transmission loss multiplier to reflect the May 2025 FERC update, while continuing to include the 2026 coincident peak demand forecast would result in a higher cost allocation to Minnesota in 2026 compared to Xcel’s proposed Supplemental Direct demand allocator.

Xcel illustrated a comparison of Demand Allocators and Revenue Requirements, which is provided in Table 26 below.

¹⁷⁴ Ex. DOC-2, MAJ-S-2 (Xcel’s Response to DOC IR No. 3107) (Johnson Surrebuttal).

¹⁷⁵ While the Department criticized Xcel’s proposed 2026 demand allocator because it “still used forecasted demand allocators for the months of July 2024 through December 2026 in its calculations,” the 2025 demand allocator as accepted by FERC similarly uses forecasted data beginning July 2024. See Ex. DOC-1 at 31. (Johnson Direct)

Table 26 – Comparison of Demand Allocators and Revenue Requirement Impacts¹⁷⁶

	Xcel Energy Proposed (Average Monthly Coincidental Peak Demands January 2024- December 2026)¹⁷⁷	Department Proposed (Use 2025 Demand Allocator in 2026)¹⁷⁸	2026 Coincident Peak Ratio (Updated for Most Recent Transmission Loss Multipliers)¹⁷⁹
Demand Allocation (adjusted for Transmission Loss Multiplier)	84.2171% MN 15.7829% WI	84.0693% MN 15.9307% WI	84.2313% MN 15.7687% WI
Revenue Requirement Impact – 2026	N/A (as filed in Supplemental Direct)	Reduction of \$2,940,237	Increase of \$282,504

All other parties reaffirmed their existing recommendations and arguments.

7. Reply Briefs

The Department indicated that Xcel’s arguments of using older interchange agreement allocator data, along with updating one component of Interchange Agreement billings but not others were previously rejected in the Company’s last rate case.¹⁸⁰ Further, Xcel’s position was inconsistent with the Commission’s preference for using the most recent FERC approved interchange agreement allocator, which included the most recent actual data.

All other parties reaffirmed their existing recommendations and arguments.

8. ALJ Report

The ALJ noted the following in his findings:

522. The Company asserts that utilizing the updated transmission loss multiplier data to compute the 2026 demand allocator would result in an increase to the 2026 revenue requirement of \$282,504.¹⁸¹ However, this figure appears to have

¹⁷⁶ Xcel Initial Brief at 158.

¹⁷⁷ Ex. Xcel-18, Schedule 17 (Halama Supplemental Direct) (Interchange Demand Allocator).

¹⁷⁸ Ex. DOC-1 at 31. (Johnson Direct)

¹⁷⁹ Based on information provided in Attachment C to the Company’s response to DOC IR 1160 and the loss multipliers filed with FERC as included in Attachment A. See Ex. Xcel-101, Attachment C (Xcel Energy Response to Department of Commerce Information Request 1160); Ex. DOC-1, Schedule 4 (Johnson Direct) (Xcel Response to DOC IR 1160, Attachments A and C).

¹⁸⁰ *In the Matter of the Application of Northern States Power Company, dba Xcel Energy, for Authority to Increase Rates for Electric Service in the State of Minnesota*, Docket No. E-002/GR-21-630, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 108-109. (July 17, 2023)

¹⁸¹ Xcel Initial Brief at 158 (citing Ex. Xcel-101 (Xcel Energy’s Response to DOC IR 1160, Attachment C));

been presented for the first time in the Company's Initial Brief. Not only did this preclude other parties from offering testimony analyzing and contextualizing this figure, but the Administrative Law Judge was unable to verify the calculation from the record evidence cited.

526. The Commission addressed similar arguments on this issue in Xcel's most recent prior rate case. In that proceeding, the Commission acknowledged the plausibility of Xcel's argument that only adjusting one component of Interchange Agreement billings may fail to reflect other changes. Ultimately, however, the Commission concluded that, in the absence of record support for any other specific updates, the Department's proposal to update the Interchange Agreement allocator was "reasonable and based on the most contemporary evidence in the record."¹⁸²

527. There is no basis to depart from the Commission's previous practice here. Like in the previous proceeding, the Department's recommended use of the more recent Interchange Agreement allocator figures is reasonable. Conceivably, other components of Interchange Agreement billings may also warrant update. But the absence of a record supporting any such updates does not justify declining to make a specific update that is supported by the record.

528. The Commission should approve the correction made by the Company in its Supplemental Direct testimony and adopt the Department's recommendation to update Xcel's Interchange Agreement allocator.

9. Exceptions to ALJ Report

Xcel argued that the facts underlying the Commission's decision in the Company's previous rate case are materially different than the present proceeding. In the prior rate case, the Interchange Agreement accepted by FERC after the case was filed allocated a lower share of costs to Minnesota, whereas in the current case, the 2025 demand allocator accepted by FERC reflected a higher allocation of costs to Minnesota. As a result, Xcel contended that Minnesota customers were held harmless from the 2025 increased costs that are properly allocable to them, and the upward trend accepted by FERC in 2025 demonstrated the reasonableness of the Company's 2026 forecasted demand allocations.

Xcel indicated that while the ALJ Report accurately concluded that recent trends in Interchange Agreement Allocators filed and accepted by FERC reflected an upward trend in the allocation of NSPM costs, it did not reconcile that trend with the recommendation to apply a lower demand allocation in 2026.¹⁸³

Ex. DOC-1, Schedule 4 (Johnson Direct) (Xcel Energy's Response to DOC IR 1160, Attachments A and C)).

¹⁸² *Id.*

¹⁸³ The ALJ Report's recommendation to hold the demand allocator flat in 2026 and continue to apply the 2025 demand allocator not supported by recent trends in the Interchange Agreement demand allocators filed with and accepted by FERC. See Ex. XLI-1 at 86 (LaConte Direct) (Xcel Energy's response

Additionally, Xcel noted that the 2026 increased revenue requirement of \$0.3 million was derived by applying the updated transmission loss multipliers that the Department advocated as reflecting the most current data, which is the demand and cost information already in the evidentiary record. Xcel indicated that a wholesale substitution of the 2025 demand allocator for 2026 is not a reasonable or proportionate response, as the 2026 demand allocator reflected expected demand, costs, and revenues for the 2026 plan year.

Further, Xcel contended that it could not update other 2026 Interchange Agreement components because actual 2026 data was not yet available, and that the use of the 2025 demand allocator for 2026 would rely on coincidence peak demand data that is not representative of the 2026 plan year

10. Staff Analysis

Commission precedent has favored the use of actual or updated figures over outdated estimates for analyses and/or evaluations. Staff notes that in Xcel's 2021 rate case, the Commission ordered the Company to use the actual 2022 demand allocator as approved by FERC, rather than the 2022 demand allocator as originally filed in the 2021 rate case.

11. Decision Options

1039 Implement Xcel's proposed Interchange Agreement Allocator of 84.2171% for Minnesota for both 2025 and 2026. (Xcel)

1040 Implement an Interchange Agreement Allocator based on the most recently approved 2025 FERC data, which results in an allocation of 84.0693% for Minnesota, and a revenue requirement increase of \$0.3 million for 2025, and decrease of \$2.9 million for 2026. (Department)

M. Indirect Wildfire Cost Allocation

1. Issue

Should the Commission approve Xcel's proposed total plant ratio method for allocating wildfire mitigation indirect costs?

2. Xcel Energy - Direct

In its direct testimony, Xcel explained the Xcel Energy Services' (XES) cost assignment and allocation framework for charges to Northern States Power–Minnesota (NSPM). The Company stated that its objective is to allocate costs consistently and equitably so customers pay only for the services they receive, while avoiding cross-subsidization between regulated and non-regulated activities. The framework follows Commission-approved principles established in Docket No. E,G-999/CI-90-1008, which prioritize direct assignment of costs whenever possible

and allocation of shared costs based on cost causation using measures such as customers, revenues, plant assets, generation output, and billing volumes.¹⁸⁴

Xcel further explained that XES directly charges costs when a specific affiliate or business area can be identified, while shared costs are grouped into Allocating Cost Centers (ACCs) and allocated using approved allocation methods. The Service Agreement and Cost Assignment and Allocation Manual (CAAM) govern these methodologies and have been reviewed and approved by the Commission through multiple proceedings. The CAAM is updated periodically to reflect organizational changes and maintain current documentation, but the underlying principles remain unchanged.¹⁸⁵

The Company noted that the allocation methods used in Minnesota are generally consistent with those used across other Xcel Energy jurisdictions, except for Minnesota-specific modifications to the General Allocator required by a 2011 Commission Order. The direct testimony also stated that XES provides a range of corporate and shared services, including legal, engineering, accounting, software planning, fleet, warehousing, and shared facilities support. XES uses policies, training, audits, and management reviews to ensure costs are properly recorded and allocated, and its allocation framework is subject to oversight by the Federal Energy Regulatory Commission (FERC).¹⁸⁶

Xcel said it anticipated executing a Sixth Amendment to the NSPM Service Agreement (which staff notes that was also submitted in its Annual Report to the Minnesota Public Utilities Commission (Commission) in Docket No. E-002/M-25-245 in May 2025) regarding proposed changes to its Administrative Service Agreement with Xcel Energy Services Inc. (XES). Through a Sixth Amendment, Xcel proposed adding a new Wildfire Mitigation service function and making various text updates for clarity and consistency.¹⁸⁷ The Company indicated that its review of the current Service Agreement did not identify any changes needed to the cost allocation methodologies for 2025.

The Company explained that it is proposing an amendment to apply an existing allocation methodology to the new Wildfire Mitigation service function because, due to the increased risk of wildfires over the last several years, wildfire mitigation has become a critical focus across Xcel Energy's operating states, including Minnesota. To support planning and risk reduction, the Company proposed adding a Wildfire Mitigation service function to the Service Agreement and allocating its indirect costs using the Total Plant Ratio (TPR), a method already applied to other service functions. The Company asserted that this request is reasonable and in the public interest because it allocates wildfire mitigation costs, an emergent service function for the Company, in the most cost-causative manner.

¹⁸⁴ Xcel, Doyle Direct, at 5-6

¹⁸⁵ *Id.*, at 7

¹⁸⁶ *Id.*, at 9

¹⁸⁷ Ex. Xcel-49 (Doyle Direct) Exhibit (NLD-1), Schedule 2(b)

3. Department of Commerce – Direct

In its direct testimony, the Department acknowledged that Xcel filed its proposed amendment on May 20, 2025 in Docket No. E-002/GR-25-245. However, the Department disagreed with Xcel’s proposal to allocate wildfire mitigation costs using the Total Plant Ratio (TPR).

Based on its review of Xcel’s proposed Wildfire Mitigation Service Function and Allocator, the Department supported incorporating Wildfire Mitigation for transparency and oversight but is concerned that use of the TPR method does not reflect the actual drivers of these costs. The Department stated that TPR assumes wildfire risk is uniform per dollar of plant across all jurisdictions, even though wildfire mitigation costs vary by local factors such as drought, terrain, vegetation, and often concentrating in high-risk areas.

In an information request, the Department asked Xcel to explain why it is reasonable to assume that all plant investments carry the same wildfire risk, regardless of whether the facilities are located in states with significantly different wildfire exposure, such as Minnesota, Texas, or Colorado. Xcel explained that the gross plant value of electric transmission and distribution facilities, reflected in the Total Plant Ratio, is used as a proxy for the geographic footprint of the system that may be exposed to wildfire risk, rather than assuming identical wildfire risk across jurisdictions. Xcel stated that allocating wildfire mitigation indirect costs based on the Total Plant Ratio for electric transmission and distribution plant is the most cost-causative allocation methodology.¹⁸⁸

The following table presents XES’s projected wildfire mitigation costs for 2025 and 2026, including the portions allocated to NSPM and to the electric jurisdiction provided in Department IR No. 186 and 187.

Table 27: 2025 and 2026 XES Wildfire Mitigation Costs Allocated to NSPM (\$ in millions)

Year	XES Total	NSPM Share	NSPM MN Electric Share
2025	\$16.5	\$3.8	\$3.3
2026	\$19.8	\$4.9	\$4.3

In IR# 2107 filed on August 22, 2025, the Department requested that Xcel justify its use of the TPR to allocate Wildfire Mitigation indirect costs or provide an alternative calculation based on NSPM’s share of direct wildfire costs. The Company declined to provide impacts of alternative allocators in the rate case’s rebuttal testimony. As a result, the Department recommended removing \$3.3 million (2025) and \$4.3 million (2026) in wildfire allocations to Minnesota jurisdiction due to cross-subsidization concerns and concluded that TPR is not the most cost-causative method.¹⁸⁹

¹⁸⁸ DOC, Johnson Direct, at 43

¹⁸⁹ DOC, Johnson Direct, at 45-46 and MAJ-D-10, IR#2107

4. Office of The Attorney General – Direct

In the OAG’s Direct Testimony,¹⁹⁰ the OAG supported allocating Wildfire Mitigation indirect costs in proportion to each jurisdiction’s direct expenditures. The OAG stated the following concerns about Company’s proposal to allocate wildfire mitigation costs using the Total Plant Ratio in the Sixth Amendment Service Agreement:

- Using the Total Plant Ratio to allocate wildfire risk management costs would incorrectly assume wildfire risk is uniform across all operating companies and jurisdictions, treating all plant investment as equally responsible for these costs.
- The Total Plant Ratio reflects only geographic footprint, not actual wildfire risk, which varies by factors such as wildfire frequency, size, restoration costs, weather, and ignition sources. In Minnesota, most wildfires are human caused rather than natural

Therefore, the OAG recommended that the Commission remove indirect wildfire costs from the Company’s rate request.

5. Xcel Energy – Rebuttal and Reply Comment Docket 25-245

In its May 2025’s reply comments on Docket 24 -245, the Company stated:¹⁹¹

.. a core principal of allocating costs from XES to the Company through the ASA is that costs that cannot be direct assigned should be allocated based on a cost-causative methodology. Direct costs incurred are not a cost-causative method of allocating indirect costs (which for wildfire costs include things like situation awareness information technology (IT costs and meteorology/fire science modeling IT costs), and the Company is not clear on how indirect costs can be allocated on a direct cost basis.

Xcel disagreed with the Department’s and OAG’s recommendation to allocate indirect costs based on NSPM’s share of direct wildfire costs. The Company argued that this approach is inconsistent with the cost-causative framework¹⁹² and could distort year-to-year allocations, as a single year of high wildfire activity might disproportionately affect the following year. Although discrete wildfire events drive direct costs, the Company stated that they do not drive indirect costs, such as IT systems used for situational awareness.¹⁹³ Allocating indirect costs based on one year wildfire events could unfairly burden jurisdiction in later years. Xcel further stated that it follows long-approved allocation methodologies in the Administrative Service

¹⁹⁰ OAG, Lee Direct, at 27-28

¹⁹¹ Xcel, Docket 25-245, Reply Comments at 2

¹⁹² The framework of how costs are assigned is outlined in Xcel’s Cost Allocation and Assignment Manual, initially established in Docket No. E002/GR-92-1185 and reaffirmed in Docket No. E,G999/CI-90-1008

¹⁹³ Xcel, Docket 25-245, Reply Comments at 2.

Agreement, and the proposed changes by the Department and OAG would depart from this established framework.¹⁹⁴

In the rate case Docket No. E-002/GR-24-320 Rebuttal Testimony, the Company discussed its disagreement with the Department and the OAG recommendation to remove \$3.3 million in 2025 and \$4.3 million in 2026 of indirect wildfire mitigation costs allocated to the Minnesota jurisdiction. The Company said by removing the wildfire mitigation costs for the Minnesota jurisdiction, \$3.3 million in 2025 and \$4.3 million in 2026, would effectively eliminate all wildfire mitigation costs allocated to Minnesota.¹⁹⁵ The Company further explained in response to the Department's IR# 2107 that the indirect XES costs must be allocated using a cost-causative methodology, as direct costs do not provide an appropriate basis allocating indirect costs, such as information technology for situational awareness or fire modeling. Table 28 shows the breakout for both direct and allocated indirect wildfire mitigation costs for NSPM- Minnesota.

Table 28 - NSPM Wildfire Mitigation Charges Test Years 2025 and 2026 (\$ in Millions)¹⁹⁶

Direct Charges	2025	2026
Labor	\$0.3	\$1.7
Consulting	\$1.2	\$0.5
Non-Labor	\$0.3	\$0.6
Total NSPM Direct Charges	\$1.8	\$2.8
MN Jurisdictional Allocation Percentage	87%	87%
Total MN Direct Charges	\$1.6	\$2.4
Indirect Charges	2025	2026
Labor	\$0.6	\$0.7
Non-Labor	\$1.4	\$1.4
Total NSPM Indirect Charges	\$2.0	\$2.1
MN Jurisdictional Allocation Percentage	87%	87%
Total MN Indirect Charges	\$1.7	\$1.8
Total Charge	2025	2026
Total NSPM Charges	\$3.8	\$4.9
Total MN Charges	\$3.3	\$4.3

Additionally, the Company rebuttal testimony emphasized that NSPM follows a Commission-approved fully distributed costing methodology, established in prior electric and gas rate cases

¹⁹⁴ *Id.*

¹⁹⁵ Xcel, Xcel – Doyle Rebuttal, at 15-17

¹⁹⁶ *Id.*

and reaffirmed in the 1994 Cost Allocation Order.¹⁹⁷ The Company's hierarchical cost allocation framework prioritizes direct assignment where possible and allocates common costs based on cost causation, variability, traceability, benefit, or, if necessary, a general allocator. For Wildfire Mitigation costs, NSPM directly assigns costs to the Minnesota jurisdiction when specific and allocates indirect costs using Total Plant (electric transmission and distribution) as the most cost-causative method available.¹⁹⁸

Xcel concluded that indirect wildfire mitigation costs should be allocated using the Total Plant Ratio and included in the 2025 and 2026 test years. This approach aligns with Commission-approved cost-causation principles and provides an equitable allocation across jurisdictions. Excluding these costs would under-recover expenses necessary to maintain safe and reliable service and prevent full recovery of wildfire mitigation efforts. The Total Plant Ratio reflects the underlying drivers of indirect costs and ensures that cost recovery matches the scope and scale of operations.¹⁹⁹

6. Department of Commerce – Surrebuttal and Reply Comment in Docket 25-245

The Department continued to argue that perceived wildfire risk drives Xcel's wildfire mitigation spending and that indirect wildfire mitigation costs should therefore be allocated based on direct wildfire mitigation costs. According to the Department, this approach would better align indirect costs with actual wildfire risks and mitigation activity levels, more accurately reflect cost causation, and avoid charging customers for costs from which they do not benefit. The Department further contended that this methodology would reduce the likelihood that some ratepayers would pay for mitigation efforts without receiving commensurate benefits.

Finally, The Department stated that because Xcel did not provide the impact of the Department's proposed methodology, the Department recommended removing all indirect wildfire costs, reducing Xcel's revenue requirement by \$1.7 million in 2025 and \$1.8 million in 2026.

7. Office of The Attorney General – Surrebuttal and Reply Comment in Docket 25-245

The OAG kept its stance in this matter and agreed with the Department recommendations. As a result, the OAG recommended:

- Allocate XES indirect wildfire risk management costs to NSPM based on directly assigned wildfire costs, not the Total Plant Ratio.
- Remove the Minnesota jurisdiction's currently calculated costs from the 2025 Test Year (\$3.3 million) and 2026 Plan Year (\$4.3 million). The 2025 Test Year and 2026 Plan Year

¹⁹⁷ Commission's September 28, 1994 Order in Docket G, E999/CI-90-1008

¹⁹⁸ *Id.*, pp.18.

¹⁹⁹ Docket No. E-002/GR-24-320, Xcel – Doyle Rebuttal (Oct.10, 2025), pp. 21.

adjustments cannot be determined because the Company did not provide the requested calculations.

Disallowing all indirect wildfire costs proposed for Minnesota, which would reduce the revenue requirement by approximately \$1.7 million in 2025 and \$1.8 million in 2026.

8. ALJ Report

The ALJ recognized that both allocation methods have limitations. The ALJ found that indirect wildfire mitigation costs are reasonably connected to wildfire risk and that higher-risk jurisdictions likely drive greater system-wide investment in shared wildfire prevention and response infrastructure. However, the ALJ also noted that allocating costs solely based on direct wildfire cost experience could overstate short-term variability and understate the shared nature of these system benefits.

Ultimately, the ALJ concluded that neither approach is perfect, but complete removal of the indirect wildfire costs was not justified because the costs are reasonable and necessary for utility service. It therefore found Xcel's total plant ratio methodology to be the more reasonable approach on the record and recommended that the Commission approve recovery of indirect wildfire costs using that allocation method.

Specifically, the ALJ made the following findings:

540. Neither allocation method is perfect. Indirect wildfire costs likely bear some relationship to direct wildfire costs. While all jurisdictions may benefit from shared indirect wildfire costs, basic cost-benefit principles dictate that the amount of money an organization would spend on preventative and responsive measures for wildfire would be driven, in part, by the total risk of wildfire. The record establishes that some jurisdictions are at greater wildfire risk than Minnesota. This heightened risk likely motivates XES to invest in a more robust prevention and response infrastructure than it would if all jurisdictions had Minnesota's wildfire risk profile.

541. Conversely, the Department and OAG's suggested methodology of allocating indirect wildfire costs based strictly based on the allocation of direct costs likely overstates the appropriate level of cost responsibility for jurisdictions that incur either more, or more severe, discrete wildfire events in a given year. This would understate the shared benefit of the indirect costs and cause unprincipled annual fluctuations of relative cost responsibility for indirect costs that would be incurred regardless of the distribution of a particular year's wildfire activity.

542. The Department and OAG are correct that, when a utility has failed to prove the reasonableness of a cost, and the record contains an inadequate basis to support some other level of cost recovery, complete removal of the cost is appropriate.

543. This principle, however, should not be stretched to an extreme such that the absence of a methodologically perfect allocation method warrants categorical removal

of costs for an activity that is inarguably reasonable and necessary for the provision of utility service. The very nature of indirect costs are that they cannot be precisely direct-allocated. The task of the Company is to propose, and ultimately the Commission to determine, a reasonably supported proxy for allocating these costs. Both allocation proposals are sufficiently supported to render categorical cost exclusion inappropriate.

544. While both allocation proposals have shortcomings, it is worth emphasizing that the Company's proposal, when netting out the impact to the 2025 Test Year and 2026 Plan Year revenue requirements, positively benefits Minnesota ratepayers. Giving due consideration to resolving doubt as to reasonableness in the customer's favor, as well as the Company's support for the methodology that, in this proceeding, benefits Minnesota ratepayers, the Company's proposal is the most reasonable in the record.

545. The Commission should approve recovery of indirect wildfire costs as allocated by total plant ratio.

9. Exceptions to The ALJ Report

a. Department of Commerce

In its filing for exceptions to the ALJ report, the Department disagreed with the ALJ recommendation allowing Xcel to allocate indirect wildfire-mitigation costs using the "total plant ratio" method, which distributes costs based on the size of each operating company rather than actual wildfire risk. The Department argued this method is unreasonable because wildfire risks vary significantly across Xcel's jurisdictions, with Colorado and Texas facing much higher (2.4 to 7.6 times higher)²⁰⁰ wildfire risks than Minnesota.

Instead, the Department recommended allocating indirect wildfire costs based on each jurisdiction's share of direct wildfire-mitigation costs, so jurisdictions with greater wildfire risk bear a larger share of the costs. The Department referred to Xcel's Docket No. 25-245 which Commission recently adopted this same approach. The Commission directed Xcel to allocate indirect wildfire mitigation costs based on direct wildfire mitigation costs, rather than using the Total Plant Ratio for electric transmission and distribution assets. The Department stated that applying this methodology in the current case would reduce Xcel's revenue requirement by approximately \$753,265 in 2025 and \$596,907 in 2026.

The Department recommended below changes to ALJ report:

~~544. While both allocation proposals have shortcomings, it is worth emphasizing that the Company's proposal, when netting out the impact to the 2025 Test Year and 2026 Plan Year revenue requirements, positively benefits Minnesota ratepayers. Giving due consideration to resolving doubt as to reasonableness in the customer's favor, as well as the Company's support for the methodology that, in this proceeding, benefits Minnesota ratepayers, the Company's proposal is the most reasonable in the record.~~

²⁰⁰ Department Exceptions, at 21

545. Consistent with its decision in Docket No. E-002/AI-25-245 and the record establishing that Xcel's operating companies face disparate wildfire risks, the Commission should approve recovery of indirect wildfire costs based on direct wildfire mitigation costs as allocated by total plant ratio.

b. Office of the Attorney General

In its filing Exceptions to ALJ report, the OAG disagreed with allowing Xcel to fully recover its indirect wildfire mitigation costs. Instead, OAG argued these costs should be reduced and allocated based on Minnesota's share of directly assigned wildfire mitigation costs, rather than using the total plant ratio, which the OAG stated that it is not appropriate for reflecting different wildfire risks across jurisdictions.

The OAG also noted that Xcel did not provide enough information to evaluate its proposed allocation method, which led them to initially recommend removing all indirect wildfire costs from the rate case. They point out that the Commission has since ordered in Docket No. 25-245 that the total plant ratio is not appropriate and required Xcel to allocate these costs based on direct wildfire mitigation costs.

The OAG recommended the Commission should consider Xcel's compliance filing and adopt findings on how the OAG and Department's allocation method affects test- and plan-year costs.

The OAG recommended below changes to ALJ report:

OAG 532a. The OAG and the Department's recommendation to allocate indirect wildfire-mitigation costs according to direct-assigned wildfire-mitigation costs results in \$950,393 in indirect wildfire-mitigation costs being allocated to Minnesota in 2025 and \$1,253,901 in 2026. This yields downward adjustments to Xcel's proposed recovery of indirect wildfire-mitigation costs of \$753,265 in 2025 and \$596,907 in 2026.

532. Based on evidence in the record, Xcel calculated the impact of allocating indirect wildfire costs based on the allocation of direct wildfire costs as decreasing the 2025 test year revenue requirement by \$0.1 million and increasing the 2026 plan year revenue requirement by \$0.6 million. However, Xcel subsequently made a compliance filing in Docket No. 25-245 showing the correct numbers.

~~543. This principle, however, should not be stretched to an extreme such that the absence of a methodologically perfect allocation method warrants categorical removal of costs for an activity that is inarguably reasonable and necessary for the provision of utility service. The very nature of indirect costs are that they cannot be precisely direct-allocated. The task of the Company is to propose, and ultimately the Commission to determine, a reasonably supported proxy for allocating these costs. Both allocation proposals are sufficiently supported to render categorical cost exclusion inappropriate. It is unnecessary, however, to completely remove indirect wildfire-mitigation costs because Xcel subsequently supplied the financial impact of the OAG and the Department's recommendation in Docket No. 25-245.~~

~~544. While both allocation proposals have shortcomings, it is worth emphasizing that the Company's proposal, when netting out the impact to the 2025 Test Year and 2026 Plan Year revenue requirements, positively benefits Minnesota ratepayers. Giving due consideration to resolving doubt as to reasonableness in the customer's favor, as well as the Company's support for the methodology that, in this proceeding, benefits Minnesota ratepayers, the Company's proposal is the most reasonable in the record. On balance, the OAG and the Department's recommendation to allocate indirect wildfire-mitigation costs based on the share of wildfire-mitigation costs directly assigned to a jurisdiction is the more reasonable one. By reflecting costs directly incurred to address wildfire mitigation in each jurisdiction, this approach better accounts for the relative risk of wildfires that applies to each jurisdiction, notwithstanding that some fluctuations will occur from year to year. The total plant ratio, by contrast, merely reflects the size of Xcel's transmission and distribution investments in each state; this does not accurately approximate cost causation for wildfire-mitigation expenses.~~

545. The Commission should approve recovery of indirect wildfire costs ~~as allocated by total plant ratio in the amounts of \$950,393 in 2025 and \$1,253,901 in 2026. This yields downward adjustments to Xcel's proposed recovery of \$753,265 in 2025 and \$596,907 in 2026.~~

~~541. Conversely, the Department and OAG's suggested methodology of allocating indirect wildfire costs based strictly based on the allocation of direct costs likely overstates the appropriate level of cost responsibility for jurisdictions that incur either more, or more severe, discrete wildfire events in a given year. This would understate the shared benefit of the indirect costs and cause unprincipled annual fluctuations of relative cost responsibility for indirect costs that would be incurred regardless of the distribution of a particular year's wildfire activity~~

10. Motion to Take Official Note

On May 15, 2025, the OAG filed motions for the Commission to take notice of Xcel's filings in Docket 25-245 related to Wildfire Mitigation expense allocation. In this motion notes, the OAG said Xcel Energy used the "total plant ratio" method to allocate indirect wildfire-mitigation costs to Minnesota. The Office of the Attorney General – Residential Utilities Division and the Department opposed this method but could not calculate the impact of their preferred allocation approach because Xcel did not provide the necessary information during discovery.

After the case was submitted to the ALJ, the Minnesota Public Utilities Commission ruled in another Docket that Xcel's total-plant-ratio method was unreasonable and ordered Xcel to file calculations using the OAG and Department's preferred method, which allocates indirect wildfire costs based on each jurisdiction's direct wildfire-mitigation expenses. Xcel filed this information on April 14, 2026.

The OAG argued that these figures are reliable because they come directly from Xcel's own compliance filing and are highly relevant to an unresolved issue in this case. The OAG therefore

requests that the Commission take official notice of the filing and consider the updated cost information when determining final rates.

11. Staff Analysis

In reviewing Xcel's compliance filing in Docket No. 25-245, which implements the Commission's Order Point 2 on indirect wildfire mitigation cost allocation,²⁰¹ Staff notes that allocating indirect wildfire mitigation costs based on direct wildfire mitigation costs rather than the Total Plant Ratio for electric transmission and distribution assets is an appropriate and improved allocation methodology. Staff reviewed the indirect cost allocation calculation that the Company provided in the Docket 25-245 Compliance Report (as shown below), the application of this method reduces Minnesota's jurisdictional cost of service in the pending rate case. It lowers Xcel's requested revenue deficiency under the multi-year rate plan by approximately \$753,265 in 2025 and \$596,907 in 2026. This adjustment shows that high-cost programs like wildfire mitigation should not be allocated using total system wide ratios that may overlook local cost differences and result in customers paying for costs from which they do not directly benefit.

Docket No. E,G002/AI-25-245 Compliance Filing-Wildfire Mitigation²⁰²		
<u>Indirect Cost Allocation Calculation</u>	2025	2026
Total Indirect Wildfire Mitigation Costs	\$ 6,124,424	\$ 6,698,777
NSPM Allocation Percentage based on Direct Costs	17.8300%	21.5071%
Indirect Wildfire Mitigation Costs Allocated to NSPM	\$ 1,091,985	\$ 1,440,713
NSPM-Electric Utility Allocator	87.0335%	87.0335%
As Ordered Indirect Wildfire Mitigation Costs Allocated to Minnesota-Electric	\$ 950,393	\$ 1,253,903
24-320 Indirect Wildfire Mitigation Costs Allocated to Minnesota-Electric*	\$ 1,703,658	\$ 1,850,808
24-320 Test Year Adjustment	(\$ 753,265)	(\$ 596,907)
<i>*Docket No. E002/GR-24-320, Xcel Exhibit-95 at 15 (Doyle Rebuttal)</i>		
<u>NSPM Cost Allocator Calculation</u>	2025	2026
NSPM Direct Assigned Wildfire Mitigation Costs	1,833,767	2,790,835
Total XES Direct Assigned Wildfire Mitigation Costs	10,284,727	12,976,360
NSPM Allocation Percentage based on Direct Costs	17.8300%	21.5071%

²⁰¹ Docket No. E,G00/AI-25-245 In the Matter of Xcel Energy's Petition for Approval of its 2025 Annual Administrative Service Agreement ORDER APPROVING MODIFICATIONS OF SERVICE AGREEMENT AND REQUIRING COMPLIANCE FILING. (April 1, 2026) Order#2

²⁰² Docket No. E,G00/AI-25-245, Compliance Filing (April 14, 2026)

12. Decision Options

1041 Allow Xcel to use the total plant ratio method for allocating wildfire mitigation indirect costs. (ALJ, Xcel Energy)

1042 Approve Xcel's recovery of indirect wildfire costs based on direct wildfire mitigation costs. (Department, OAG)

N. Base Pay

1. Issue

Should the Commission approve Base Pay expense for the 2025-2026 test years?

2. Xcel Energy - Direct

Xcel stated that it determined base pay for non-bargaining employees using its current workforce base pay and target merit increase percentage. This was based on review of external base pay increase projection surveys, comparison of increase in rate percent non-bargaining employees to negotiated wage increase rate of union employees national economic conditions and Xcel' budget limitation. While bargaining employees are compensated according to negotiated contracts between the union and the company.

Xcel budgeted base pay increase of \$367.29 million and \$370.33 million, or 3%, for 2025 and 2026 test years, respectively, compared to 3.5% in 2024.²⁰³ Xcel used 2024 survey sources²⁰⁴ data as a baseline for the forecast years, because 2025 and 2025 survey data was not available. The 2024 surveys indicated projected base pay increase ranging from 3.8% to 4.7% for all utilities nationally and 4.0% to 4.8% for all companies nationally. Xcel noted, though the 2024 data projected higher pay increases, it decided to budget for a lower increase of 3% for 2025 and 2026 test years to balance competitive pay and affordability.²⁰⁵

3. Department of Commerce - Direct

The Department stated that the base pay amounts proposed for recovery for the 2025 and 2026 test years for Minnesota Jurisdiction seem higher than that of approved test years and historical actuals from 2022 to 2024. Tables 30 and 31 below show Xcel's Base Pay from 2022 to 2026.

²⁰³ Id., at 12.

²⁰⁴ Id.

²⁰⁵ Id.

Table 29: Department's Comparison of Xcel Approved and Forecast Test Years' Base Pay (\$ million)²⁰⁶

	APPROVED TEST YEARS			PROPOSED TEST YEARS	
	2022	2023	2024	2025	2026
Increase from previous year		\$18.98	(\$3.06)	\$29.27	3.04
Aggregate Base pay	\$322.11	\$341.09	\$338.02	\$368.28	370.33
% increase		5.90%	-0.90%	8.70%	0.80%

Table 30: Department's Comparison of Xcel Actuals and Forecast Years' Base Pay (\$ Million)²⁰⁷

	ACTUAL BASE PAY			PROPOSED TEST YEARS		
	2021	2022	2023	2024	2025	2026
Increase from previous year		(\$3.09)	\$46.12	(\$14.23)	\$29.27	3.04
Aggregate Base pay	\$325.05	\$321.96	\$368.09	\$353.86	\$367.29	370.33
% increase		-1.00%	14.30%	-3.90%	8.70%	0.80%

The Department noted that actual base pay varied from 2021-2024, particularly between the 2022 amount of \$321.96 million and the 2023 amount of \$368.09 million, reflecting an increase of \$46.12 million, or 14.23%, in 2023. In fact, on both tables the next highest increase was between 2024 actuals and the forecasted 2025 test year amount. Also, Xcel provided no information on how changes in the bargaining employees' wages for the years 2025 and 2026 were forecasted.

Accordingly, the Department requested in IR No. 122 that Xcel provided Full-Time Equivalent (FTE) employee group count, average and medium total compensation for approved test years including actuals for 2022 to 2024 and forecast for 2025 and 2026 test years.

The Department noted that the significant increase in base pay for 2023 was explained by the Company direct testimony that voluntary retirements and involuntary severance programs resulted in separation of 550 employees from the Company. Despite this explanation, the Department was unable to request follow-up discovery regarding base pay trends because the Company provided discovery responses late, which hampered the ability to verify the reasonableness of the high actual 2023 base pay information. The Department also noted other barriers to its review of base pay data, such as the Company providing only FTE counts for 2022, 2023, and 2024 actuals,²⁰⁸ without including requested FTE counts for the approved 2022-2024 test years in the last rate case or the FTE counts in current rate case for the 2025 and 2026 test

²⁰⁶ Ex. DOC-3, at 7 (Kehrwald Direct) (Xcel's Second Supplemental Response to DOC IR No. 122, Attachment C)

²⁰⁷ Id.

²⁰⁸ Ex. DOC-34 at 7 (Kehrwald Direct) (Xcel's Second Supplemental Response to DOC IR No. 122, Attachment C).

years. The Department opined that cost per FTE is necessary for determining the reasonableness of the forecasted 2025 and 2026 base pay expenses.

Due to Xcel's failure to provide the requested base pay information necessary for analysis and review of the reasonableness of Xcel's proposed 3% increase in base pay budget, the Department recommended applying the proposed 3% budget increase to the recently approved base pay (2024) test amount in the last rate case, instead. The Department stated that the Company has failed to show that recovery from ratepayers greater than this amount was warranted. Applying the 3% base pay to the approved base pay in the last rate case would result in base pay of \$348.16 million and \$358.61 million in 2025 and 2026, respectively.²⁰⁹

Therefore, the Department recommended reductions to total base pay expense including transmission operations and maintenance (O&M expenses of \$17,630,725 for 2025 test year and \$9,723,404 for 2026 plan year.)²¹⁰ Further, the Department recommended that compliance requirement for recovery of total rewards program costs in Xcel's next rate case should include base salary and FTE count on Minnesota electric jurisdictional basis, in a format similar to what Xcel provided in its second response to IR 122 Attachment C summary tab.²¹¹

4. Xcel Energy – Rebuttal

Xcel stated there were three reasons for the significant increase in 2023 actual base pay over 2022 base pay. First, bargaining employees received a 6.1% pay increase in January 2023 per the union labor agreement, while non-union employees received a 4.0% pay increase in March 2023.²¹² Second, overtime costs increased from 2022 to 2023 due to merit increases and one additional nuclear outage in 2023 compared to 2022.²¹³ Lastly, the Voluntary Retirement Program (VRP) and Involuntary Retirement Program (IVRP) resulted in a one-time increase in cost for December 2023 compensation.

Xcel also rebutted the Department's assertion that Xcel did not show how wages for bargaining employees were forecasted to change in 2025 and 2026 by stating:

The Company employs skilled union laborers from International Brotherhood of Electrical Workers (IBEW) Local 23, 160, and 949. The Company's base pay budget assumes a 3.0 percent base pay increase per year for 2025 and 2026 for bargaining unit employees. The Company's current bargaining contract, which will expire on December 31, 2025, included a 3.0 percent increase on January 1, 2025.

The Company stated that it provided to the Department actual FTE counts for bargaining and

²⁰⁹ Ex. DOC- 36-6 (Kehrwald Direct) (Department version of Attachment C from Xcel's Second Supplemental Response to DOC IR No. 122)

²¹⁰ Id.

²¹¹ Id.

²¹² Ex. Xcel –65at 6 (Ly Rebuttal)

²¹³ Id. Also see Church Direct, at 129 .

non-bargaining employees for 2022-2024 as of December 31st of each year and as of July 31, 2025 for both NSPM and Xcel Energy Services (XES) Inc., except forecasted FTE for Minnesota Electric Jurisdiction or a Total Company basis for the 2025 test year and 2026 plan year because that information was unavailable. Further, Xcel stated:

While each business area uses headcount data as one of the data points to develop their business area O&M budgets, this headcount information is not included once these individual business area budgets are consolidated into the Total Company labor costs that are used for rate case purposes. This is because the Company allocates labor costs, not specific employees.²¹⁴

Xcel also argued that applying a 3% budget increase to the most recently approved base pay test year figure as unreasonable because doing so ignored changes like higher inflation in labor market, and staffing changes throughout the Company since the last approved rate case was filed in November 2021. Further, the Company noted that the Department's recommendation ignored the fact that to retain good employees the company must pay market-based compensation irrespective of previously approved recovery amounts, and that actual amounts come out higher than approved amounts. On Table 31 below, Xcel compared its 2024 actual base pay amounts to the Company's 2024 approved amount from the last electric rate case.

**Table 31: Comparison of Actual Base Pay Amounts to Amounts Recovered in Rates
State of Minnesota Electric Jurisdiction²¹⁵**

Test Year	Base Pay Amount Approved for Test Year	Actual Base Pay Amount	Percent (%) Difference
2022	\$322,107,019	\$321,964,257	(0.4%)
2023	\$341,086,066	\$368,087,129	7.9%
2024	\$388,021,097	\$353,857,782	4.7%
Aggregate	\$1,001,214,182	\$1,043,909,168	4.3%

The table shows that Xcel's 2024 actual base pay amounts were approximately \$16 million higher on a State of Minnesota Electric Jurisdiction basis than the amount approved for recovery in 2024 from the Company's last electric rate case. Thus, on average over the three-year period of 2022-2024, the actual base year pay expenses were greater than the amount collected in base rates by 4.3%. Based on the table above, Xcel held that it significantly under-recovered on base pay throughout the 2022-2024 period and, therefore, considered the Department's recommendation unreasonable.²¹⁶

Xcel opposed the Department's recommendation for additional compliance reporting requirements in its next rate case filing including the base pay and FTE count as part of total

²¹⁴ Ex. Xcel –28 at 28 (Robinson Rebuttal).

²¹⁵ Id., at 31 (Robinson Rebuttal).

²¹⁶ Id.

compensation program schedule for recovery on Minnesota electric jurisdictional basis. The Company noted:

Although the Department believes the requested information will provide it with an additional opportunity to analyze the Company's compensation and benefits forecasts, it does not represent how the Company budgets for labor. Therefore, it will be of little use as a practical matter. In particular, the forecasted FTE counts requested as part of this report do not exist in the Company's budget process, because the Company does not budget FTEs or people by jurisdiction (Minnesota Electric Utility, in this case), it budgets costs.²¹⁷

Accordingly, Xcel urged the Commission to reject the Department's recommendations.

5. Department of Commerce – Surrebuttal

The Department noted the Company was correct in its assertion about labor market changes such as inflation over the years since the 2021 rate case filing and generally agreed that the company's budgeted 3% merit increase for employees in both 2025 and 2026 were reasonable.

However, the Department noted that Xcel did not provide FTE counts for test years since the use of FTE employee hours was required for calculating Xcel's General Allocator, and argued thus:

The Company does not forecast the charging of labor hours at the employee level and is unable to provide projected FTE counts for the 2025 and 2026 test year because FTE hours fluctuate significantly based on short-term, project-specific needs, which vary widely across the organization, in scope, and over time. Updating the FTE hours allocator with sufficient frequency to capture these variations is not feasible due to the dynamic and decentralized project work across the Company.²¹⁸

Also, the Department noted that Xcel failed to provide requested additional information on anticipated staffing needs for 2025 and 2026, that would have offered some insight into the forecasted changes for these test years, compared to recent actuals and previously approved test years. The Company instead stated that "all O&M expenses including labor costs, are reasonable and necessary to provide clean, safe, and reliable service. In that sense, the base pay amounts included [in] the budgets for 2025 and 2026 in this proceeding are the amounts necessary for maintaining operations in 2025 and 2026."²¹⁹ The Department found Xcel's argument against using the FTE hours from the General Allocator calculation to develop an FTE count was misplaced.

²¹⁷ Ex. Xcel –28 at 32 (Robinson Rebuttal).

²¹⁸ Ex. DOC-4, , MBK-S-4 (Kehrwald Surrebuttal) (Xcel Response to DOC IR 2190).

²¹⁹ Ex. Xcel4, at 16-17 (Kehrwald Surrebuttal). See also Ex. DOC_4, MBK-S-5 at part A (Kehrwald Surrebuttal) (Xcel Response to DOC IR 2189).

Further, the Department further noted that it had requested Xcel to quantify the three factors identified by its witness Yen Ly that contributed to the 14.3% increase in 2023 base pay compared to its 2022 actual base pay. Accordingly, Xcel reported increased Minnesota electric jurisdictional costs of \$1.8 million for the 2023 IVRP,²²⁰ \$18.4 million for the 2023 VRP and \$9.17 million in labor costs associated with the unplanned Prairie Island outage which was determined by the Commission to be the result of the Company's imprudent actions²²¹ and is involved in a separate contested case.²²²

The Department believed that the VRP program amount of \$18.4 million included other costs beyond base pay, and as such, estimated the base pay impact of the VRP program at \$4.07 million, based on the severance pay costs reported as a ratio of VRP total costs.²²³ In light of the above, the Department recommended that reducing 2023 actual base pay by the cumulative impact of the known 2023 "one-time" costs of totaling \$15.04 million (consisting of additional nuclear outage costs of \$9.17M add IVRP costs of \$1.8M and estimated VRP Severance costs of \$4.07M.²²⁴

Department agreed to apply the Company's 3% budget increase to the most recently approved base pay test figure in the last rate case. The 3% inflator was an acknowledgment of rising inflation and to align this with proposed merit increases, despite Xcel's unclear staffing intentions in the test years. Invariably, the Department showed the result of its calculations, thus:

This calculation yields test year base pay adjustments of (\$19,130,725) and (\$11,723,404) in 2025 and 2026 and test year base pay amounts of \$348.16 million in and \$358.61 million respectively. To avoid overlapping adjustments, I reduce my base pay adjustment by the amount of Department witness Andrew Golden's transmission

²²⁰ Ex. DOC-4, MBK-S-6 at 6 (Kehrwald Surrebuttal) (Department's annotated version of Xcel's Response to DOC IR 2179) and Ex. DOC-_4, MBK-S-7 (Kehrwald Surrebuttal) (Xcel's Supplemental Response to DOC IR 166)

²²¹ In the Matter of Xcel Energy's Petition for Approval of its 2023 Annual Fuel Forecast and Monthly Fuel Cost Charges, Docket No. E-002/AA-22-179, ORDER APPROVING 2023 FUEL-CLAUSE TRUE-UP REPORT, REQUIRING ADDITIONAL FILINGS, FINDING IMPRUDENCE, AND NOTICE OF AND ORDER FOR HEARING at Order Point 5 (Nov. 15, 2024) (eDocket No. 202411-211999-01).

²²² Ex. DOC-4, MBK-S-6 at 6 (Kehrwald Surrebuttal) (Department's annotated version of Xcel's Response to DOC IR 2179). Also, see Ex.DOC-4, at 19 (Kehrwald Direct).

²²³ Id.

²²⁴ 1 Ex. DOC-4, MBK-S-9 (Kehrwald Surrebuttal) (Department Surrebuttal version of Attachment C from Xcel's Second Supplemental Response to DOC IR 122). Calculation of 2023 base pay adjustments: Additional Nuclear Outage \$9.17 million + IVRP \$1.80 million + estimated VRP Severance \$4.07 million = \$15.04 million.

O&M adjustment which is inclusive of labor costs (\$1.5 million in 2025 and \$2.0 million in 2026).²²⁵

The Department recommended reducing total base pay expenses by \$17,630,725 for 2025 test year and \$9,726,404 for 2026 plan year.

Further, Department presented an alternative base pay adjustment of \$9,803,723 for 2025 and \$9,386,547 for 2026 Test Years, should the Commission reject the recommendation above. The alternate adjustment was based on the 2022 to 2024 trend analysis with adjustments to remove one-time expenses from the 2023 figure.²²⁶ as shown on Table 32 below (Staff adapted Department's Table 31).

The Department calculated its alternate pay base adjustment by applying inflation factors provided by Xcel at 3.8% for 2025 and 0.8% for 2026 to average 2022-2024 actuals. The result of these calculations was further adjusted to avoid overlap in labor costs with the Department's transmission O&M adjustments of \$1,500,000 for 2025 test year and \$2,000,000 for 2026 plan year. Accordingly, the Department recommended that total base pay expense be reduced by \$9,803,723 for the 2025 test year and \$9,386,547 for the 2026 plan year.²²⁷

²²⁵ Ex. Xcel – at 22 (Kehrwald Surrebuttal).

²²⁶ Id., at 23.

²²⁷ Id., at 26.

Table 32: Department Surrebttal Analysis for Alternate Base Pay Recommendation²²⁸

Base Pay	2022 Test Year (TY)	2023 Plan Year (PY)	2024 Plan Year (PY)	2025 Plan Year (PY)	2026 Plan Year (PY)
2022-2024 PY & 2025-2026 TY	\$322,107,019	\$341,086,066	\$338,021,097	\$367,792,456	\$370,329,986
Difference		\$18,979,047	\$(3,064,969)	\$29,271,358	\$3,037,530
Percent Change	-	5.9%	-0.9%	8.7%	0.8%

Base Pay	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 TY	2026 TY
Adjusted Actuals & 2025-2026 TY						
2022 - 2024 Adjusted Actuals and 2025-2026 Proposed Test Years	\$325,054,345	\$321,964,257	\$353,047,129	\$353,857,782	\$367,292,456	\$370,329,986
Difference	-	(\$3,090,088)	\$31,082,872	\$810,653	\$13,434,674	\$3,037,530
Percent Change	-	-1.0%	9.7%	0.2%	3.8%	0.8%

1. Average of 2022 - 2024 Adjusted Actuals	\$342,956,390²²⁹
2. Alternate Department Adjustment	<u>2025 Test Year</u> <u>2026 Test Year</u>
Inflator Used based on proposed budget change	3.8% 0.8%
Alternate recommended test year Base Pay	\$355,988,732 \$358,943,439
Difference from Company's Proposed Budget	(\$11,303,723) (\$11,386,547)
3. Add Department Witness Generation and Transmission O&M Adjustments back to avoid overlap	<u>2025 Test Year</u> <u>2026 Test Year</u>
Andrew Golden – Transmission O&M Adjustment	\$1,500,000 \$2,000,000
4. Resulting Alternate Department Adjustment (after accounting for Generation and Transmission O&M Adjustments)	<u>2025 Test Year</u> <u>2026 Test Year</u>
Adjusted Department recommended Base Pay Budget	\$357,488,732 \$360,943,439
Difference from Company's Proposed Budget	(\$9,803,723) (\$9,386,547)

²²⁸ Kehrwald Ex. DOC-___, MBK-S-9 Page 1 of 1

Accordingly, the Department recommended a primary and alternate adjustment to reduce total base pay expense thus:

- Primary: \$17,630,725 for 2025 Test Year and \$9,723,404 for 2026 Plan Year.
- Alternate (if primary rejected): \$9,803,723 for 2025 Test Year and \$9,386,547 for 2026 Plan Year.

6. ALJ Report

The ALJ concluded that Xcel's request to recover its proposed base pay budget is reasonable and equally supported by the fact that the 3.8 percent and 0.8 percent increase proposed for 2025 and 2026, respectively, are well within the ranges of market data provided by the Company. Further, the information provided for evaluating the reasonableness of the Company's request was sufficient without needing to require additional FTE data in future cases. Therefore, the ALJ recommended approval of Xcel's request for base pay in the 2025 Test Year and 2026 Plan Year.²³⁰

The ALJ Found:

562. The Department's primary argument is effectively that, due to the lack of FTE data, it was unable to verify the reasonableness of Xcel's request. To be sure, the Company bears the burden of establishing the reasonableness of its request. The Department, however, points to no legal authority to require that this support comes in the specific form it desires. The information provided by the Company provided sufficient evidence to support its request.

563. The reasonableness of the Company's request is further supported by the fact that the 3.8-percent and 0.8-percent increases proposed for 2025 and 2026, respectively, are well within the ranges of market data provided by the Company.

564. Accordingly, the Commission should approve the Company's request for base pay in the 2025 Test Year and 2026 Plan Year.

565. As the information provided by the Company was sufficient to evaluate reasonableness of Xcel's proposal, the record does not support requiring additional FTE information in future rate cases. Accordingly, the Commission should take no action on the Department's request for such a requirement.

7. Exceptions to ALJ

a. Xcel Energy

²²⁹ Average of three years from 2022 to 2024 actuals: $321.96+353.05+353.86/3 = \$342,956,732$

²³⁰ ALJ Report at 89, 563-565.

Xcel supported the ALJ recommendation to approve the Company's request for base pay in the 2025 Test Year and the 2026 Plan Year. The ALJ properly found the information provided in the record sufficient to evaluate the reasonableness of the Company's proposal and also rejected the Department's request that the Company be required to provide FTE forecasts in future rate cases. Xcel noted that the ALJ correctly recognized that there exists no legal authority requiring the Company to provide FTE counts in the precise manner requested by the Department.

b. Department of Commerce

The Department disagreed with the ALJ recommendation that the Commission approve Xcel's base pay request, without modification. In reaching this decision, the ALJ reasoned that Xcel had provided sufficient justification for its request, despite failing to provide FTE counts that the Department requested. However, the Department recommended the Commission limit Xcel's proposed base pay increase for 2025 and 2026 to 2024 test-year base pay, with a 3% annual increase for 2025 and 2026. Xcel in this case justified its 2025 and 2026 test year requests by claiming it calculated its base-pay using "current salary and headcount data without providing any staffing figures on the Minnesota electric jurisdictional basis. The Department agreed with ALJ that there is no law requiring a specific form of evidence to support Xcel's request. However, the Department argued that FTE counts are a common labor figure, and the Commission should determine that Xcel's request is not properly supported without such evidence, in this case.

Further, the Department noted that the ALJ accepted Xcel's calculation based on its 2024 actual headcount and added:

This is even though Xcel's 2024 actual base pay exceeded its approved test-year base pay by \$15.8 million, without sufficient explanation. Xcel assumes its 2024 actual base pay is reasonable, but this assertion is impossible to properly test without FTE counts. And Xcel did not remove from the calculations what it acknowledges are one-time costs in 2023.²³¹ Because it was impossible to establish the reasonableness of Xcel's base-pay calculations within the context of staffing expectations, the Department was left with two options recommending full denial or an appropriate adjustment. Here, the Department recommends base pay amounts of \$348.16 million in 2025 and \$358.61 million in 2026.²³²

Additionally, the Department disagreed with the ALJ finding that the ALJ also found that Xcel had sufficiently explained its 14.3% salary increase from 2022 to 2023.²³³ The Department noted that the Company's explanations included one-time costs related to high overtime costs due to one more nuclear outage in 2023 than 2022, and costs associated with Xcel's voluntary retirement program. Accordingly, the Department called attention to these as anomalous one-time costs that buttress the argument for the need to require additional information and

²³¹ Ex. DOC-4 at 20–21 (Kehrwald Surrebuttal).

²³² DOC Exception to the ALJ Report at 23.

²³³ Id., at 24.

Documentation from Xcel, in the form of FTE counts that would have allowed intervenors to properly analyze these expenses.

The Department opined that accepting Xcel's base-pay calculation, which was based on their 2024 actual base pay without sufficient explanation or FTE counts sets a dangerous precedent and further argued:

Allowing recovery based on actual base pay in 2024 would permit Xcel to set the baseline for recovery of base pay, not by justifying the expense, but simply by paying it in a preceding year. The fact that Xcel's overall proposed increase from 2025 to 2026 is below the 3% salary increase implies that there are some workforce projections impacting that analysis. Xcel has not provided sufficient data or calculations to justify their base pay numbers. Therefore, the only reasonable approach is to use 2024 test-year base pay, increasing by 3% annually, which both sides agree is a reasonable annual salary adjustment.²³⁴

The Department recommended the Commission reject the ALJ's recommendation and require Xcel to report FTE counts in future rate cases where it seeks to recover base pay expenses. However, according to the Department in order to implement its recommendations the Commission should adopt the following revisions to the ALJ Findings 561-564:

561. The Department raised important questions regarding fluctuations in Xcel's base pay expenses. The Company ~~provided substantial evidence explaining~~ attempted to explain these trends, ~~including~~ by relying on market data, information about union contracts, the impact of significant outages on overtime levels, past pay increases, and the VRP and IVRP.

562. The Department's primary argument is effectively that, due to the lack of FTE data, it was unable to verify the reasonableness of Xcel's request. To be sure, the Company bears the burden of establishing the reasonableness of its request. ~~The Department, however, points to no legal authority to require that this support comes in the specific form it desires. The information provided by the Company provided sufficient evidence to support its request.~~ FTE counts are a common figure used in labor force budgeting. While the Company attempts to explain its refusal to provide FTE counts, none of those reasons are compelling. Moreover, the Company's explanation does not sufficiently support the jurisdictional allocation of its compensation expenses, without a complete disclosure of FTE counts, for the relevant years, on a jurisdictional basis.

~~563. The reasonableness of the Company's request is further supported by the fact that the 3.8 percent and 0.8 percent increases proposed for 2025 and 2026, respectively, are well within the ranges of market data provided by the Company.~~

~~564. Accordingly, the Commission should approve the Company's request for~~

²³⁴ DOC Exception to the ALJ Report at 25.

~~base pay in the 2025 Test Year and 2026 Plan Year.~~

563. Accordingly, the Commission adopts the Department recommended adjustment to reduce the Company's revenue requirement by \$17,630,725 for 2025 and \$9,723,404 for 2026.

~~565.~~564. As the information provided by the Company was not sufficient to evaluate reasonableness of Xcel's proposal, the record ~~does not~~ supports requiring additional FTE information in future rate cases. ~~Accordingly, the Commission should take no action on the Department's request for such a requirement.~~ In future rate cases, the Company must provide jurisdictional FTE counts for test and plan years, similar in format to what it produced for 2022–2024 in response to DEPARTMENT IR No. 122 in this case.

8. Staff Analysis

Staff notes that based on the results of national studies on employee salary increases provided by Xcel support²³⁵ the ALJ conclusion that Xcel's request to recover its proposed base pay budget is reasonable. And the reasonableness of the Company's request is equally supported by the fact that the 3.8-percent and 0.8-percent increase proposed for 2025 and 2026, respectively, are well within the ranges of market data provided by the Company. Staff also notes that Xcel further, supported its base pay request by providing actual FTE counts for both NSPM and XES for 2022, 2023, 2024, and through July 31, 2025. These FTE counts show that in June 2025, the NSPM FTE count was 3,098 which was the same number of NSPM FTEs in 2024. Xcel responded to Department's discovery information request that it had no plans for a restructuring or layoffs in either 2025 or 2026.

Staff agree with the ALJ view that the information provided for evaluating the reasonableness of the Company's request were sufficient without needing to require additional FTE data in future cases and therefore recommend approval of Xcel's request for base pay in the 2025 Test Year and 2026 Plan Year.

9. Decision Options

1043 Approve Xcel's proposed base pay increase of \$367.29 million and \$370.33 million, or a three percent (3%) increase for 2025 and 2026 test years, respectively. (Xcel, ALJ)

1044 Deny Xcel's proposed base pay increase of \$367.3 million and \$370.33million, or a three percent (3%) for 2025 and 2026 test years, respectively. (Department)

1045 Approve the Department's recommended primary adjusted base pay increase of \$348.61 million and \$358.61 million for 2025 and 2026 test years, reflecting a

²³⁵ Ex. Xcel-28, at 29 (Robinson Rebuttal).

reduction of \$17.63 million and \$9.72 million from Xcel's proposed base pay increase in 2025 and 2026 test years. (Department)

Department's recommended alternate adjusted base pay increase should the Department's primary adjusted Base pay increase not be approved for 2025 and 2026 test years:

1046 Approve Department's alternate adjusted base pay increase of \$357.49 million and \$360.94 million for 2025 and 2026 test years, reflecting a reduction of \$9.80 million and \$9.40 million from Xcel's proposed base pay increase in 2025 and 2026 test years. (Department Alternative)

1047 Require Xcel to include an FTE count on a Minnesota jurisdictional basis for its next rate case to assist in the review of future base pay recovery requests. (Department Alternative)

1048 Deny the request to have Xcel include an FTE count on a Minnesota jurisdictional basis for its next rate case to assist in the review of future base pay recovery requests. (XCEL, ALJ)

O. Long-Term Incentive (LTI) Compensation

1. Issue

Should the Commission approve Long-Term Incentive Compensation for the 2025 – 2026 test years?

2. Xcel Energy - Direct

Xcel grants long-term incentive (LTI) program to some of its employees based on Total Shareholder Return (TSR LTI), as well as two forms of employee retention to support long term goals known as time-based LTI and achievement of environmental (Environmental LTI) goals. The Company stated that the time-based LTI is a prevalent market practice that enables it to competitively attract and retain high quality leadership talents. Further Xcel alluded to the benefit of time-based LTI to customers, thus:

The long-term retention of qualified employees' benefits customers. Retaining experienced employees increases productivity and reduces costs associated with hiring and training new employees. Customers also benefit from having qualified employees who are able to provide a high level of service due to their knowledge and experience garnered over many years.²³⁶

The Company disclosed that time-based LTI requires eligible employees remain with the Company through the three-year vesting period of each associated LTI grant cycle.

²³⁶ Ex.-Xcel-64, at 27 (Ly Direct)

Xcel equally stated thus, about its environmental LTI program goals:

The Xcel Energy Environmental LTI program goals and measurements help provide direction, set the expectations, and drive employee behavior and decisions, while providing employees with market-based incentive compensation opportunity for their efforts. Xcel Energy believes environmental goals are so important that its leaders will not receive a portion of their market-based compensation if these environmental goals are not met. The Company has aligned LTI compensation with environmental goals for nearly 20 years.

The Company also noted that tying LTI to achieving environmental goal directly benefits its customers and the general public through prudently reducing carbon emissions and their environmental impact.

The LTI is usually granted to a group of employees comprising of the executives and those who are not executives (non-executives). The executives are eligible to receive all three forms of LTI, while non-executives are eligible to receive time-based LTI. The Company noted that the employees who receive LTI typically have a higher level of influence on the Company's direction, strategy, and innovation.²³⁷

Xcel sought to recover all the time-based LTI and environmental LTI expenses of \$11.5 million and \$12.1 million in 2025 and 2026 test years, respectively. The Company is not seeking to recover the TSR LTI. Table 33 below shows the breakdown of requested LTI in the 2025 test year and 2026 plan year.²³⁸

Table 33: Xcel Energy's Requested LTI Expense (\$M)

Year	Environmental LTI	Time-Based LTI	Combined Total LTI
2025 Budget Year	\$3,024,161	\$8,457,534	\$11,481,695
2026 Budget Year	\$3,278,405	\$8,811,648	\$12,090,053
Total LTI Budget	\$6,302,566	\$17,269,182	\$23,571,748

Additionally, Xcel noted that its use of LTI program is a common practice in the utility industry, and therefore a reasonable O&M expense for safe and reliable operations, and further added:

LTI programs are widely used compensation vehicles for both executives and non-executive employees. A 2024 Willis Towers Watson study (electric and gas utilities only) shows that 100 percent of the 53 utility companies submitting survey data provide LTI as a component of total compensation for executive roles and nearly 75 percent provided LTI to non-executive roles. A 2021 WorldatWork study identified LTI programs across 94 percent of over 420 publicly traded companies, and 74 percent of those companies

²³⁷ Ex. Xcel-64, at 27 (Ly Direct)

²³⁸ Id., at 28

administer LTI using a combination of performance and time-based awards.²³⁹ Additionally, similar to AIP, LTI is pay-at-risk, and this component of total compensation lowers fixed costs.

3. Department of Commerce - Direct

The Department noted that Xcel provided LTI in the form of weighted performance stock units (PSUs) and Restricted share units (RSUs) by 70% and 30%, respectively. The performance stock unit (PSUs) was measured using a combination of relative total shareholder return (TSR) and environmental performance as a basis.

The Department requested Xcel provide a breakdown of the 2025 and 2026 budgeted test-year environmental LTI and time-based LTI amounts. Table 34 below shows a summary of Xcel's two-year budget for time-based LTI and environmental LTI.

Table 34: Time-Based LTI and Environmental LTI in Multi-Year Rate Plan (\$M)²⁴⁰

	2025 Test Year	2026 Test Year
Time-Based LTI	\$8,457,534	\$8,811,648
Environmental LTI	\$3,024,161	\$3,278,405
Combined Total LTI Expense	\$11,481,695	\$12,090,053

The Department reviewed the information furnished by Xcel, as presented in the above table and stated that the Commission has consistently rejected recovery of LTI, including in the last rate case.²⁴¹ Additionally, opined that Xcel already provides significant and comprehensive benefits to its employees which include AIP (or short-term incentive compensation), pension, 401(k) matching, health and dental, life insurance, long-term disability, legacy retiree medical and recognition awards, all of which are included for recovery from ratepayers in this proceeding.²⁴²

The Department also noted that environmental goals incentivized by the Company were based on total Xcel-wide performance and not performance of Northern States Power Minnesota

²³⁹ Exhibit_64_(YL-1), Schedule 7 (2021 WorldatWork Incentive Pay Practices)

²⁴⁰ Ex. Xcel-64, _at 28 (Ly Direct).

²⁴¹ Ex DOC – 3, at 16 (Kehrwald Direct). See also 4 In re Northern States Power Company, dba Xcel Energy Appl. for Auth. to Increase Elec. Serv. Rates in Minn., Docket No. E-002/GR-21-630, FINDINGS OF FACT, CONCLUSIONS, & ORDER at 14-15 and Order Point 3 (July 17, 2023) (eDocket No. 20237-197559-01).

²⁴² Ex. Xcel-64_ at 7, Table 1 (Ly Direct). Note that Xcel provided revised Total Rewards Program Costs in an errata filing. Errata to the Direct Testimony of Yen Ly at PDF p. 28 (July 31, 2025) (eDocket No. 20257-221604-01)

(NSPM) and environmental goals generally aligned with Minnesota carbon-free standard outlined in Minnesota Statute 216B.1691, Subd. 2g. sets a 100% carbon-free goal for all electric utilities by 2040.²⁴³ The Department held that even if Xcel set its environmental goal for zero electric carbon emission, it would be unfair to ratepayers to provide millions in incentives to Xcel for following state law.

The Department recommended the Commission deny the recovery of proposed LTI expenses of \$11,481,695 in the 2025 test year and \$12,090,503 in the 2026 plan year.

4. Xcel Large Industrials – Direct

Xcel Large Industrial (XLI) noted that Xcel proposed to recover \$11.5 million in LTI compensation in test -year 2025 and \$12.1 million in 2026 plan year because the time-based component of the LTI enables it to attract and retain top leadership talent.

XLI opined that Xcel has not adequately justified recovery of LTI compensation and argued that ratepayers should not pay for utility incentives just because a utility complies with the Minnesota carbon-free standard required by law. Further, XLI stated that the time-based LTI compensation is based on meeting financial targets that benefit shareholders, not ratepayers.

XLI recommended the Commission reject Xcel’s proposal to recover LTI expense from ratepayers.

5. Xcel Energy - Rebuttal

Xcel argued that it was not requesting all LTI related to this case but only those related to specific strategic efforts namely recovery of environmental performance tied to Company’s carbon reduction goals and recovery of time-based LTI tied to long-term sustainability goals – retaining leadership talents. Xcel further stated that customers benefit from the Company retaining qualified employees who can provide a high-level of service due to their knowledge and many years of experience.

Xcel also responded to the Department’s concern that environmental goal is tied to collective performance of Xcel Energy company-wide instead of just NSPM. Xcel stated that this made sense because of the interrelated nature of the electric system since carbon emissions in a neighboring state impact customers in Minnesota customers. Further, Xcel stated that Minnesota’s carbon free standard includes some off-ramps and authorizes the Commission to grant utilities delays or modifications if compliance would create significant issues, thus:

These off-ramps demonstrate that the legislature has acknowledged that achievement of the carbon-free standard is not a foregone conclusion. The fact that Minnesota’s carbon-free standard provides for off-ramps demonstrates that achieving carbon-free electricity

²⁴³ Minn. Stat. §§ 216B.1691, subd. 2g. (2024).

by 2040 will not be simple or straight forward. This is especially true given the current federal administration's stance on policies that support renewable generation.

Xcel, therefore insisted that it should not be denied recovery of environmental LTI, because tying employee compensation to achievement of Xcel Energy's environmental LTI goals helps incentivize employees to achieve these goals, as well as those of the State of Minnesota.

6. Xcel large Industrial - Surrebuttal

Xcel Large Industrials continued to recommend Xcel should be denied recovery of time-based LTI and environmental LTI.

7. Department of Commerce – Surrebuttal

The Department noted that the goal of retaining employees is beneficial to any Company's operations and being armed with a robust total rewards package plays a significant role in employees' career decisions. However, the Department was not persuaded that Xcel's extensive benefit package is not attractive enough to make employees want to remain with the Company. Further, the Department did not accept fact that the Minnesota Statue includes off-ramp clauses that allow the Commission to modify or allow delay in the implementation of the carbon-free standard, as reason enough for ratepayers to pay substantial amounts of dollars for environmental LTI.²⁴⁴ Afterall, Xcel is already incentivized to add renewables to its system as doing so increases their rate base and overall return.

The Department also noted that Xcel's time-based LTI was basically earned by remaining employed through the required three-year vesting period, and within this period the employee continues to be paid. In fact, ratepayers should not be responsible for time-based LTI which essentially provides bonus for continued employment in positions that ratepayers are already paying through base compensation and benefits.

The Department maintained its position that Xcel had not shown that it is reasonable for ratepayers to bear the costs of LTI expense and recommended the Commission deny Xcel's proposal to recover environmental and time-based LTI.

8. ALJ Report

The ALJ Found: ²⁴⁵

570. The record contains no evidence of any Minnesota utility being allowed recovery of LTI.

²⁴⁴ In re N. State Power Co.'s Appl. for Auth. to Increase Rates for Elec. Serv. in Minn., Docket No. E-002/GR-21630, Findings of Fact, Conclusions, & Order at 107-108 (July 17, 2023) (eDocket No. 20237-197559-01).

²⁴⁵ The ALJ at 89-90, 570-578

574. The Department recommended that the Commission disallow any LTI recovery. The Department argues that Xcel's environmental LTI is no more ambitious than what is required by law and therefore provides no benefit. The Department also pointed out that all LTI is paid in stock. Paying LTI in stock inherently incents achieving company profitability. XLI also recommended disallowance of LTI, similarly reasoning that LTI incents prioritizing shareholder interests and provides no incremental environmental benefit to customers.

576. The Commission considered Xcel's arguments that LTI incents environmental goals and retention of employees to the benefit of consumers in Xcel's last rate case and still denied recovery. The record here contains no principled basis to depart from that decision here.

577. While Xcel provided a large amount of information supporting the amounts of its LTI in the context of broader market trends, this information does not address the basis for past disallowances. The issue in Xcel's last rate case was not that, as a business matter, the amount of LTI paid was unreasonable. Rather, the Commission concluded, that the environmental LTI did not offer a unique benefit above Xcel's legal obligation to pursue environmental goals and the fact that LTI was paid in stock incents prioritizing shareholder interests. In other words, the question was not whether, or even how much, LTI Xcel should pay. Rather, the question was who should pay it. The additional information provided by Xcel in this proceeding does not meet its burden to show that its customers should pay this expense.

578. The Commission should disallow recovery of Xcel's LTI compensation in the MYRP.

9. Exceptions to the ALJ Report

Xcel disagreed with recommendation that the Company not be allowed to recover its market-based compensation costs and finding that LTI does not offer a unique benefit beyond the Company's legal obligation to pursue environmental goals, including the fact that LTI is paid in stock incents prioritization of shareholder interests above that of ratepayers. Regarding recovery of market-based costs, Xcel argued:

Incentive compensation is necessary for Xcel employees' total cash compensation to be in line with the market. Xcel provided a compensation study which showed that without LTI and AIP, Xcel Energy's total cash compensation amounts fell to between 16.7% to 19.9% below the median compensation levels of other utility employers.²⁴⁶

Xcel also, though its environmental goals align with Minnesota carbon-free standard, the two are not equal. Xcel reiterated from previous testimony that the Company's environmental LTI program imposes a more rigorous, year-over-year expectation for carbon emissions reductions

²⁴⁶ Xcel Exceptions, at 24

associated with the Company's electric service, not just achievement of carbon-free generation targets every five years as set forth in the statute.²⁴⁷

Additionally, Xcel argued that paying LTI in stock in no way proved LTI is tied to shareholder interests than that of the ratepayer. In fact, it is common practice among publicly traded utilities to pay LTI in the form of stock, so as to give employees stake in long term financial success and stability of the Company.²⁴⁸ Finally, Xcel based on the stated reasons above urged the Commission to reject ALJ recommendation and allow the Company to recover its proposed LTI costs.

10. Staff Analysis

Staff agrees with the ALJ recommendation to deny Xcel's request to recover costs for both environmental and time-based LTI compensation as reasonable. Offering financial incentives for actions required by law is unreasonable and the Commission has a long-standing practice of denying recovery for LTI because it is designed to serve shareholder interests.

11. Decision Options

1049 Allow recovery of Xcel's MN Jurisdictional 2025-2026 long term incentive compensation expense of \$11,481,695 million for 2025 test year, and \$12,090,503 million for 2026 plan year, respectively. (Xcel)

1050 Deny recovery of Xcel's MN Jurisdictional 2025-2026 long term incentive compensation expense of \$11,481,695 million for 2025 test year, and \$12,090,503 million for 2026 plan year, respectively. (Department, XLI, ALJ)

P. Annual Incentive Plan

1. Issue

- Should the Commission approve Xcel Energy's annual incentive plan expenses for test years 2025 and 2026?
- Should the Commission approve Xcel Energy's request to increase the annual incentive compensation cap from 15 to 20% of aggregate pay?
- Should the Commission approve Xcel Energy's request to calculate the annual incentive plan payout in aggregate instead of by individual employee base pay?
- Should the Commission approve Xcel Energy's request to discontinue future annual incentive compensation plan expense compliance filings and refunds?

²⁴⁷ *Id.*, at 25

²⁴⁸ *Id.*

2. Xcel Energy – Direct

Xcel’s Annual Incentive Plan (AIP), also known as pay-at-risk, is a component of an employee total compensation and offered to exempt non-bargaining employees based on performance and the Company attaining its pre-established business goals. The Company determines the AIP target percentage based on third-party market data and the employees’ position within the organization. Further, Xcel stated that:

The use of incentive compensation by employers is a standard practice throughout the United States and in nearly every industry. According to the 2024 Willis Towers Watson Compensation Study of investor-owned utility companies, provided as Exhibit__64(YL-1), Schedule 5, 100 percent of companies in both the national sample and the revenue-based sample maintain an annual incentive plan. The widespread use of incentive compensation is due to two fundamental benefits: (1) it promotes high, sustainable employee performance; and (2) it reduces fixed labor costs.²⁴⁹

Also, Xcel noted it has a long-standing pay-for-performance philosophy that correlates compensation with work expectations, such that employees who perform below expected target level receive lower or no AIP payout. The Commission approved a cap of 15% on AIP on individual base pay in Xcel’s last rate case.

The Company proposed recovering a 100% target-level AIP amount, subject to a 20% cap (rather than the currently approved 15 % cap), and calculating any refund amount on an aggregate basis rather than by individual employee. Under the aggregate approach, Xcel would refund customers if the total AIP payout expense fell below the authorized amount.

The Company also proposed eliminating AIP compliance filings and the requirement for AIP refund. Xcel presented below on Table 35, the amounts of AIP expense included at target level capped at 20% for 2024, 2025 and 2026 test years.

Table 35: Xcel Energy’s AIP Expense-State of Minnesota Electric Jurisdiction (\$M)²⁵⁰

Program Year	2024 Test Year	2025 Test Year	2026 Test Year	Total
AIP at 20% Cap	\$22,798,130	\$23,480,546	\$24,183,247	\$70,461,923

Xcel held that a cap on its ability to recover AIP at market-based target level compensation poses huge challenges and needs the incremental adjustment to align with the higher AIP recovery percentages allowed for other Minnesota utilities. Xcel stated that:

In Minnesota Power’s last litigated rate case, the Commission approved that company’s proposed short-term incentive capped at 20 percent of base pay. As the Commission

²⁴⁹ Ex. Xcel-64 at 14 (Ly Direct)

²⁵⁰ Ex. Xcel-64 at 13-28

noted, “[p]articularly important is the fact that, without AIP, Minnesota Power’s total cash compensation for eligible employees would be below the market rate.”, the Company is proposing the same treatment of our total cash compensation expenses.²⁵¹

Also, noted another example of higher Commission approved AIP cap:

Past levels of Commission-approved short-term incentive compensation have been even higher. For example, in 2020 Otter Tail Power Company received an annual incentive cap of 25 percent that is currently still in place. The Company also received a 25 percent AIP cap limit on rate recovery in its electric jurisdiction in 2010 and had a 25 percent cap on AIP in its gas jurisdiction from 2009 through 2021.²⁵²

Xcel also held that ALJ in the Company’s last electric case agreed that its request was reasonable and recommended the Commission approve a 20% AIP expense cap to base pay, because market-rate compensation practices in recent years have changed to include more incentive-based compensation.

3. Xcel Large Industrials – Direct

Xcel Large Industrials argued that the Commission should reject Xcel’s proposed incentive compensation expense as too high, as it exceeds the currently approved 15% aggregate cap and to avoid having ratepayers funding incentives beyond approved cap. XLI stated that maintaining the cap at the approved rate would reduce incentive compensation amount from \$23.5 million in 2025 to \$17.6 million, and from \$24.2 million in 2026 to \$18.2 million, resulting in a reduction of \$11.9 of aggregate base pay across the 2025 and 2026 test years.²⁵³

Additionally, XLI stated that the Company had not provided a valid reason for shifting AIP calculation from an individual basis to aggregate basis. Therefore, XLI recommended that the AIP cap continue to be calculated on an individual basis after payout for compliance purposes.

4. Department of Commerce - Direct

The Department noted that Xcel offers three different AIP opportunities to its employees namely, Year-End Award, I Deliver Award and Innovator Award.²⁵⁴ The Department mentioned that Xcel’s 2024 AIP Booklet provided by the Company’s witness in direct testimony disclosed the incentive target ranges from a low percentage to a high percentage (trade secret). During discovery, the Company discovery disclosed that the highest target percentage for AIP eligible employees was 140%. Xcel’s actual payout range of year-end incentive award goals goes from zero to 150% of the employee year-end incentive opportunity, though the Company has no maximum payout restrictions for I Deliver and Innovator awards.

²⁵¹ *Id.*, at 19

²⁵² ANNUAL REPORT OF 2010 INCENTIVE COMPENSATION PLAN, Docket Nos. E002/GR-92-1185 and G002/GR-09-1153 (May 31, 2011)

²⁵³ Ex. XLI – at 47 (LaConte Direct).

²⁵⁴ 2 Ex. Xcel-64, YL-D-1, Schedule 4 at 7 (Ly Direct). See also Ex. DOC – at 18 (Kehrwald Direct).

The Department noted that Xcel requested recovery of AIP expense based on a 20% aggregate cap and a 100% target level payout, which differs from the Company's last rate case approved 15% cap on individual basis. The Department requested Xcel's 2025 and 2026 test year AIP amounts, and Xcel provided the requested information as shown on Table 36 below.

Table 36: Xcel Energy's AIP Expense-State of Minnesota Electric Jurisdiction (\$M)²⁵⁵

Program Year	2024 Test Year	2025 Test Year	2026 Test Year	Total
AIP Expense	\$22,798,130	\$24,748,622	\$25,573,440	\$73,120,192

The Department stated that the Commission consistently applied a 15% cap in resolving disputed recovery caps for short-term compensation in several of Xcel's past rate cases²⁵⁶ and as well as, in CenterPoint's most recent rate case settlement in Minnesota.²⁵⁷ Further, the Department noted that in prior rate cases the Commission rejected requests to increase the AIP cap because Xcel's AIP improperly transfers risk of operation from shareholders to ratepayers as a result of using earnings per share (EPS) threshold (which benefits shareholders), without inuring corresponding benefits to ratepayers. EPS is a component of Xcel's proposed AIP in the instant case, and a large portion of executives and officers' pay that ranges from 30% to 40% come from incentive compensation, this invariably aligns their interests with shareholders instead of ratepayers.²⁵⁸ The Department noted that Xcel already provided significant and comprehensive benefits to its employees, like pension, 401(k), health and dental, life insurance, long-term disability, retiree medical, and recognition awards, for recovery from ratepayers in this proceeding, which makes a recovery cap of 20% unreasonable.

²⁵⁵ Ex. Xcel-65 at 13-28 (Ly Rebuttal).

²⁵⁶ See several prior Xcel Energy general rate cases including MPUC Docket Nos. E002/GR-12-961, E002/GR-13-868, E002/GR-15-826, E002/GR-21-630.

²⁵⁷ In re Appl. by CenterPoint Energy Res. Corp. d/b/a CenterPoint Energy Minn. Gas for Auth. to Increase Nat. Gas Rates in Minn., MPUC Docket No. G008/GR-19-524, ORDER ACCEPTING & ADOPTING AGREEMENT SETTING RATES (Mar. 1, 2021) (eDocket No. 20213—171439-01); In re Appl. by CenterPoint Energy Res. Corp. d/b/a CenterPoint Energy Minn. Gas For Auth. to Increase Nat. Gas Rates in Minn., MPUC Docket No. G008/GR-19-524, SETTLEMENT AGREEMENT at 14 (Sep. 17, 2020) (eDocket No. 20209-166661-01); In re Appl. by CenterPoint Energy Res. Corp. d/b/a CenterPoint Energy Minn. Gas For Auth. to Increase Nat. Gas Rates in Minn., MPUC Docket No. G008/GR-21-435, ORDER ACCEPTING & ADOPTING AGREEMENT SETTING RATES (Sep. 23, 2022) (eDocket No. 20229-189265-01); In re Appl. by CenterPoint Energy Res. Corp. d/b/a CenterPoint Energy Minn. Gas For Auth. to Increase Nat. Gas Rates in Minn., MPUC Docket No. G008/GR-21-435, SETTLEMENT AGREEMENT at 13 (March 14, 2022) (eDocket No. 20223-183756-06); In re Appl. by CenterPoint Energy Res. Corp. d/b/a CenterPoint Energy Minn. Gas For Auth. to Increase Rates for Nat. Gas in Minn., MPUC Docket No. G008/GR-23-173, ORDER ACCEPTING & ADOPTING AGREEMENT SETTING RATES (June 27, 2025) (eDocket No. 20256-220411-01); In re Appl. by CenterPoint Energy Res. Corp. d/b/a CenterPoint Energy Minn. Gas For Auth. to Increase Rates for Nat. Gas in Minn., MPUC Docket No. G008/GR-23-173, SETTLEMENT AGREEMENT at 13 (March 14, 2022) (eDocket No. 202411-212407-01).

²⁵⁸ Ex. DOC – 4, at 24 (Kehrwald Direct).

Further, the Department disagreed with Xcel’s proposed aggregate approach to administering the approved AIP amount. The Department stated that changing administration of the recovery amount to an aggregate basis would likely result in customers receiving no refunds for AIP, so long as total AIP paid is greater than authorized cap (20% proposed vs. 15% approved). In fact, an aggregating cap likely enables Xcel to concentrate the AIP budget on incentive awards for a small number of employees and this likely incentivizes them to prioritize short-term results and shareholder interests over that of ratepayers, thereby diminishing the chance or even amount of refund customers would receive. The Department stated that the Commission has historically disagreed with the use of an aggregate approach because of its concerns about high incentive compensation percentages and decided to limit recoverable incentive payments to 15% of an individual’s base salary.²⁵⁹

The Department recommended AIP costs recoverable from ratepayers be limited to 15% of individual base salary, resulting in adjustments of \$1,254,103 and \$1,293,290 to 2025 and 2026 test years amounts,²⁶⁰ respectively. The Department also recommended that the aggregate cap be denied. The Department’s recommended adjustments are shown on Table 37.

Table 37: Xcel Energy’s AIP Expense-State of Minnesota Electric Jurisdiction (\$M)

Program Year	2024 Test Year	2025 Test Year	2026 Test Year
Xcel Requested AIP Expense-20% Recovery Cap	\$22,798,130	\$24,748,622	\$25,573,440
DEPARTMENT Recommendation-15%Recovery Cap		23,494,519	24,280,150
DEPARTMENT Recommended Adjustment		1,254,103	1,293,290

²⁵⁹ 4 In re Appl. of N. States Power Co. for Auth. to Increase Its Schedule Rates for Elec. Serv.in the State of Minn.,

Docket No. G-002/GR-92-1185, ORDER AFTER RECONSIDERATION at 7 (Jan. 14, 1994) (eDocket No. 322655) (emphasis

added). This order references the rationale originally stated In re Appl. of N. States Power Co. for Auth. to Increase

Its Schedule Rates for Elec. Serv.in the State of Minn., Docket No. G-002/GR-92-1185, ORDER FINDINGS OF FACT,

CONCLUSIONS OF LAW, AND ORDER at 28 (Sep. 29, 1993) (eDocket No. 355173).

85 Ex. DOC-3_, MBK-D-15 (Kehrwald Direct) (Xcel Response to DOC IR No. 175

²⁶⁰ Ex. DOC-3_, MBK-D-17 at 5 (Kehrwald Direct) (Xcel Response to DOC IR No. 174, Revised Attachment B).

Calculation for 2025: Remove AIP over 15% (3,426,679) – Remove AIP over 20% (2,172,576) = (1,254,103).

Calculation for 2026: Remove AIP over 15% (3,532,571) – Remove AIP over 20% (2,239,281) = (1,293,290).

5. Xcel Energy - Rebuttal

Xcel disagreed XLI's and the Department's recommendations to cap AIP at 15% and continue to calculate the cap on an individual basis instead of on an aggregate basis after payout for compliance purposes. Xcel stated that the 15% cap on AIP was established a long time ago in the 1990s and since then there have been significant focus shift on incentive compensation in the modern labor market. The market-based AIP targets exceed 15% for many jobs over the past 30 years. The Company argued that the changes in the AIP percentage does not affect the total cash compensation it would incur and pay out, they only affect the portion recoverable from rates. Xcel held that the assertion that 15% has been approved in other recent Minnesota rate cases and, as such, is appropriate in the instant case. Xcel noted that the Department ignored the numerous Commission decisions approving AIP above 15%. For example, the Commission in Minnesota Power's last litigated rate case approved recovery of AIP capped at 20% of base pay²⁶¹ and in 2020 Otter Tail Company received an annual incentive cap of 25%.²⁶²

Xcel stated that the concern about the Company's incentive compensation improperly transfers risk of operation to ratepayers from shareholders by using the EPS threshold was misplaced. Xcel opined that the EPS threshold should be viewed as a prudent management tool used to ensure the Company's financial stability prior to AIP payouts.

Xcel suggested that there was confusion regarding its use of term "aggregate" in relation to its request to administer AIP on aggregate rather than on an individual base salary basis, which caused XLI and the Department to recommend use of the later basis. Xcel explained that by the using the term "aggregate" it meant that the amount approved for AIP was calculated using individual employees' market-based target for respective jobs and capped percentage is the aggregate amount the Company was referring to for AIP. Xcel, also held that:

Administering AIP using the approved aggregate amount ensures that total incentive payments remain reasonable and affordable for customers, while still allowing for appropriate differentiation in individual performance based on role and contribution.²⁶³

Also, Xcel noted, however, that:

Applying the cap individually after the approved AIP amount is determined would distort the intent of the program by creating arbitrary limits on certain employees' payouts regardless of their actual performance or accountability. This could weaken the link between pay and performance, reduce fairness within the plan, and undermine its effectiveness in motivating employees to achieve customer-focused results.²⁶⁴

²⁶¹ Ex. Xcel -65, at 10 (Ly Rebuttal).

²⁶² Id.

²⁶³ Id.

²⁶⁴ Id.

Xcel therefore continued to request AIP be calculated on an aggregate basis. This approach balances affordability and accountability to customers and with the need to maintain credible performance-based incentive plan that attracts and retains skilled employees to the Company.

6. Xcel Large Industrial – Surrebuttal

XLI disagreed with Xcel's position that it should recover 20% on its annual incentive compensation expense because it includes incentive targets that benefit customers just like Otter Tail's AIP. XLI stated that Xcel's AIP is not similar because Otter Tail's non-executive annual incentive compensation plan does not have an EPS target that must be met before its employees receive any incentive compensation. In fact, XLI argued that incentive compensation recovered from customers should not dictate the amount of incentive compensation offered to employees.

XLI further opined that:

Before employees are awarded any incentive compensation for performance targets that benefit the Company's operating goals, NSPM must achieve its EPS target. Employees are, thus, incented to first achieve EPS targets, as doing so is a requirement to receive any incentive compensation. This benefits NSPM before it is required to pay incentive awards. Thus, employees have dual incentives for achieving financial goals and operating goals. The financial incentive offsets the need for ratepayers to pay a higher percentage of incentive compensation.²⁶⁵

XLI also noted that Xcel's EPS trigger (affordability trigger) ensures that adequate target level of earnings has been achieved before incentive compensation is paid to employees who meet performance targets. Accordingly, XLI asserted that there should be no need for additional recovery from ratepayers.

7. Department of Commerce – Surrebuttal

The Department noted that Xcel provided revised adjustment if AIP is capped at 15% on individual basis as \$3,426,679 for 2025 test year and \$3,532,571 for 2026 test year. Xcel's stated that an EPS threshold serves merely as an affordability threshold necessary for ensuring financial viability before administering AIP. However, the Department argued that even if AIP is structured to have the EPS threshold serve as an affordability trigger, this does not change the fact that EPS is a profitability metric used to determine whether to issue awards and size of those awards.

The Department disagreed with Xcel's claim that the Commission has authorized higher percentages of AIP recovery in other rate cases and the same should be appropriate in this proceeding. Xcel argued that market-based AIP targets study for many positions have exceeded 15% over the last thirty years.²⁶⁶ The Department responded that though the Company offered

²⁶⁵ Ex. XLI – at 17 (LaConte Surrebuttal)

²⁶⁶ 1 Ex. Xcel-65, at 9 (Ly Rebuttal).

AIP above 15%, it is not reasonable for ratepayers to pay this cost. The Department further noted that the AIP structure still uses EPS, which the Commission has previously concluded that was improper because ratepayers bear the risks of the costs of incentives while the shareholders reap the benefits of increased EPS.

Xcel claimed that it is being held to a different standard than other utilities, which it argued was necessary to support its competitive position in the market, as was the case with Otter Tail Power Company, who provided similar compensation benchmarking study and was considered sufficient.²⁶⁷ The Department stated:

The citation that the Company provided for this statement actually directs to a Commission order where the Commission concluded “the record lacks persuasive evidence that without these benefits, the Company could not secure the employees necessary to provide safe, reliable service and that these expenses are reasonable and necessary to provide utility service. The Commission has disallowed these types of costs in past rate cases and is not persuaded to depart from this practice here.”²⁶⁸

The Department continued to recommend that AIP recovery be capped at 15%.

Further, the Department refuted the Company’s claim that administering AIP on an aggregate basis balances the need for affordability and accountability to customers with the need to maintain a credible, performance-based incentive plan that attracts and retains skilled employees. The Department stated that administering the program on an aggregate basis would erode the ratepayer protection that is provided by administering the program cap on an individual basis. In fact, a 15% AIP cap administered on an individual basis provides a customer contribution to incentive compensation while also providing some protection for ratepayers, whereas the aggregate basis undermines such protections. Because there exists a continuous AIP linkage to EPS that represents a program relationship with Company profitability, ratepayers (interest) need to be protected.

Therefore, the Department recommended that Xcel’s proposal to administer the annual incentive compensation program on an aggregate basis be denied. Xcel’s shall continue to administer its AIP program cap on an individual basis. The Department recommended adjustments of \$3,426,679 and \$3,532,571 for test years 2025 and 2026, respectively.

8. Administrative Law Judge Report

The ALJ Found²⁶⁹

²⁶⁷ Id., at 16.

²⁶⁸ 8 In re Otter Tail Power Company. for Auth. to Increase Elec. Serv. Rates in Minn., Docket No. E-017/GR-20-719, FINDINGS OF FACT, CONCLUSIONS, & ORDER at 14 (Feb. 1, 2022) (eDocket No. 20222-182349-01).

²⁶⁹ The ALJ at pp. 91-94, 579-591.

589. Regardless of how Xcel characterizes the EPS threshold, the fundamental point remains. No AIP whatsoever is paid out if the EPS target is not met. In other words, no matter what other customer-facing outcomes also inform AIP, EPS is paramount because failing that one metric will deprive employees of any AIP.

590. The Company has not met its burden to prove that increasing the AIP cap to 20 percent is reasonable. The Commission should deny Xcel's request.

591. In support of its request to change the mechanism for administering the API cap to an aggregate basis, Xcel argued that applying the cap individually after the approved AIP amount is determined distorts the intent of the program by creating arbitrary limits on certain employees' payouts regardless of their actual performance. The Company stated that this could weaken the link between pay and performance, reduce fairness within the plan, and undermine its effectiveness in motivating employees to achieve customer-focused results.

592. The Department countered that applying the cap on an aggregate basis would erode ratepayer protections and could result in excessive payments (such as the Company's budgeted 92-percent base salary for the ten top-paid executives).

593. The record contains no principled basis on which to depart from the Commission's declination to apply the AIP cap on an aggregate basis in Xcel's last rate case. Retaining the cap in its current form protects customers from subsidizing large incentive payments to highly compensated individuals through a program that is driven by corporate financial, and not customer, interests.

594. Accordingly, the Commission should also reject Xcel's proposal to administer the cap on an aggregate basis.

9. Exceptions to the ALJ Report

a. Xcel Energy

Xcel objected to the ALJ recommendation that the Commission maintain the 15 percent cap on AIP compensation, and the findings that the Company had not justified departing from Commission decision in the last rate case. Xcel argued that the 15 percent cap was established in the early 1990s and does not reflect current compensation trends, where over the past three decades, employers have moved a greater percentage of compensation into incentive programs because they drive employee performance and reduce fixed costs.²⁷⁰ Further, Xcel argued in favor of a 20 percent cap which would be comparable to the AIP recovery percentage the Commission allowed for other Minnesota utilities. Xcel argued that if the decision against approving 20% cap because of its AIP alignment with EPS, then it seems unfair that Minnesota Power whose 90% of its AIP were tied to utility net income, cash from operating activities, and

²⁷⁰ Xcel Exceptions, at 27.

utility competitiveness goals was approved for a 20% cap.²⁷¹ Xcel noted that in the Minnesota Power case inclusion of financial metrics as part of the AIP did not result in denial of these reasonable costs.

Further, Xcel disagreed with the ALJ's recommendation that the Commission reject the Company's proposal to administer the cap on an aggregate basis instead of on an individual employee basis. Xcel argued that the only change between using an aggregate versus individual basis was that the aggregate basis allowed the Company to better tie compensation to performance. Additionally, Xcel argued that using an aggregate basis would further strengthen the link between pay and performance, as well as motivate employees to meet the Company's customer-focused AIP goals.

10. Staff Analysis

Staff supports the ALJ conclusions and recommendations as reasonable. Noting as aptly held by the ALJ that Xcel pointed to no evidence, establishing that any of those utilities have an EPS threshold incorporated into their AIP and yet were allowed a higher AIP cap by the Commission. This materially distinguishes those Commission decisions, as the EPS threshold was a key part of the Commission's rationale for denying Xcel's nearly identical request in its last rate case. Additionally, the ALJ held that the record contains no principled basis on which to depart from the Commission's declination to apply the AIP cap on an aggregate basis in Xcel's last rate case. Thus, ALJ concluded that retaining the cap in its current form protects customers from subsidizing large incentive payments to highly compensated individuals through a program that is driven by corporate financial, and not customer interests.

11. Decision Options

Recovery Cap

1051 Approve Xcel's request to recover AIP expense based on a 20% aggregate cap and a 100% target level payout. (Xcel)

1052 Deny Xcel's requested AIP recovery.

1053 Authorize Xcel to recover AIP expense based on a 15% individual cap and a 100% target level payout. Reduce Xcel's proposed AIP expense by adjustment of MN Jurisdictional annual incentive plan expense of \$3,426,679 and \$3,532,571 for 2025 test year and 2026 plan year. (Department, XLI, ALJ)

AIP Administration

1054 Require Xcel to continue to administer the AIP program on an individual basis. (Department, XLI, ALJ)

²⁷¹ Xcel Exceptions at 28.

1055 Require Xcel to administer the AIP program on an aggregate basis. (Xcel)

Compliance Filing

1056 Approve Xcel's request to eliminate AIP compliance filings and the requirement for AIP refund. (Xcel)

1057 Deny the request to eliminate AIP refund compliance filings

Q. Top Ten/Executive Compensation

1. Issue

Should the Commission approve recovery of the proposed compensation amounts for Top Ten executive employees?

2. Xcel Energy – Direct

Xcel sought to recover base salary, AIP capped at 20% of employee salary, environmental and time-based LTI, and all other compensation excluding other LTI for its ten top-paid executives. The Company requested the amounts of \$7,301,543 and \$7,573,008 in rate recovery for compensation for its ten top-paid executives in 2025 test year and 2026 plan year, respectively.

Xcel continued to express concern about the compensation limitation imposed on its top ten highest paid employees from its last electric case.²⁷² The Commission had limited recoverable compensation for Xcel Energy's ten highest paid executives to \$150,000 each or \$1.5 million in aggregate comparable to the salary of state of Minnesota governor. The Company opined that comparing executive compensation to the Governor's salary was misleading, because the governor receives other benefits like housing, various means of transportation and security, that are not available to private sector executives. Xcel further held that there are other state of Minnesota non-leadership jobs that pay more than \$150,000, like a faculty member at North Hennepin Community college earning \$470,000 per annum.

Xcel maintained that there should be other considerations when benchmarking the compensation of the Company's executive jobs. The Company testified in its last gas rate case proceeding, thus:

.. Testimony filed in the Company's last gas rate case proceeding (Docket No. G002/GR-23 413) stated that the Company should benchmark its executive compensation against privately held, municipal, and cooperative utilities.²⁷³ While some jobs within these municipal utilities may be similar, the jobs would not be comparable to the Company's

²⁷² 4 In re Northern States Power Company, dba Xcel Energy Appl. for Auth. to Increase Elec. Serv. Rates in Minn., Docket No. E-002/GR-21-630, FINDINGS OF FACT, CONCLUSIONS, & ORDER at 21-23 (July 17, 2023) (eDocket No. 20237-197559-01).

²⁷³ Ex. Xcel – at 35 (Ly Direct).

executive-level jobs due to the difference in size of these utilities. For instance, the largest municipal utility in the state is in Rochester, serving 123,000 customers, and of the 121 municipal utilities in the state, 78 percent serve fewer than 5,000 customers and 17 percent serve less than 500 customers.²⁷⁴

Further, the Company stated that its executive level compensation is reasonable, because it benchmarks its executive level positions to national market data, an approach that is consistent with competitive market practices.²⁷⁵ Additionally, Xcel argued that level of compensation requested for its ten highest paid executives is necessary to allow the Company to attract and leadership talent necessary to provide safe, and reliable services.

3. Office of the Attorney General – Direct

The OAG discussed that, in the last Xcel rate case the Commission denied recovery of most of the compensation for Xcel’s ten top-paid executives.²⁷⁶ In that case the Commission determined that Xcel did not meet its burden of proof on several factors, including the large size of its overall rate request, frequent rates request increases every year in the last decade, the impact of high cost of executive compensation on ratepayers and the overall executive compensation focus on shareholder interest. Thus, the Commission determined “it would be reasonable for Xcel’s ratepayers to pay an amount for Xcel’s top 10 executives that is comparable to the amount they pay for their own executives in state government.” Accordingly, the Commission decided to limit Xcel recovery to a level similar to that of Minnesota’s highest executive officer—the Governor, at \$150,000 per year, and also, precluded recovery of AIP expenses for Xcel’s ten top executives.

Xcel petitioned the Commission to reconsider its decision on top ten executive compensation but the request for rehearing and reconsideration was denied. Xcel appealed the decision to the Minnesota Court of Appeals. The Court of Appeals sided with the Commission’s findings that Xcel had not carried its burden to establish recovery for its ten highest-paid employees’ compensation but reversed the Commission’s decision to cap rate recovery of executive compensation at the level of the Governor’s salary and remanded to the Commission for additional findings. The OAG noted in reversing the cap rate and remanding the case, the court stated:

The court of appeals found that by not explaining “why the governor’s salary was the appropriate measure to meet the needs of the ratepayer and the utility, the commission ‘failed to consider an important aspect of the problem’” and therefore acted arbitrarily and capriciously.

²⁷⁴ Id.

²⁷⁵ Ex-66 at p.7 (Mustich Direct) and Exhibit ___ (RVM-1), Schedule 2 Page 3 of 19.

²⁷⁶ Ex. OAG – at 4 (Hinderlie Direct). See also MPUC Docket No. E-002/GR-21-630, Findings of Fact, Conclusions, and Order at 21 (July 17, 2023) (eDocket No. 20237-197559-01) (2021 Xcel Rate Case Commission Order).

The court noted, however, that it expressed “no opinion as to an appropriate measure of recoverable compensation and do not foreclose the commission from setting the compensation level at the same amount if just and reasonable.”²⁷⁷

The OAG noted that following the court of Appeal’s remand, the Commission decided not to reopen the record on executive compensation but instead to issue a decision “based on the existing record and direction from the court of appeals.”²⁷⁸ Currently, the Commission issued a notice of comment period requesting comments on what should be the Commission’s disallowance for top ten executive compensation in the Xcel’s 2021 Electric Rate Case. This case is currently pending Commission determination.

The OAG stated that the testimony of Xcel’s witness, Ly, did not provide a sufficient basis for the Commission to determine that the Company’s requested compensation levels are just and reasonable for the ratepayers to bear the burden to pay the cost of those expenses. The OAG noted that Witness Ly merely stated that it competes for executive-individuals that “are responsible for the collective operation of a large, complex business environment.”²⁷⁹ but provided no information about their responsibilities, how these individuals serve ratepayers, or what duties they perform to serve the public utility portion of Xcel’s business. Also, OAG noted that Witness Ly relied on the Court of Appeals’ rejection of the Commission’s compensation cap that used the governor’s salary as a proxy as support for approving the Company’s request. However, the OAG argued that the Court of Appeals asked the Commission instead to explain its basis for using the governor’s salary as a proxy, and besides at this point in the proceeding it is yet to be determined whether the Commission will continue to use that proxy or opt for a different path.

The OAG sought from Xcel other information that would be helpful for deciding the appropriate measure of compensation that would meet the needs of both ratepayers and the utility. The requests included:

- Requests for job descriptions for Xcel’s ten highest-paid executives.²⁸⁰
- Requests for Xcel to quantify the amount of time each of its ten highest-paid executives spent communicating with shareholders or potential shareholders.²⁸¹
- The digital calendars for each executive.²⁸²

The OAG disclosed that Xcel refused to provide most of the information that was requested and instead stated there exists “no formal job descriptions for [its] top ten highest paid employees.” Rather that “its executives are responsible for overall strategic leadership; operational priority

²⁷⁷ Matter of N. States Power Co., No. A23-1672, 2025 WL 249995 at *10 (Jan. 21, 2025).

²⁷⁸ MPUC Docket No. E-002/GR-21-630, ORDER AUTHORIZING NOTICE AND COMMENT PERIOD AFTER REMAND at 3 (July 23, 2025).

²⁷⁹ Ex. Xcel –64 at 33 (Ly Direct).

²⁸⁰ Schedule KH-D-3 (Xcel Response to OAG IR No. 1011); Schedule KH-D-4 (Xcel Response to DOC IR No. 123).

²⁸¹ Schedule KH-D-5 (Xcel Response to OAG IR No. 1020).

²⁸² Id.

setting and oversight; risk management and security of infrastructure; human capital management; and ensuring financial and legal accountability.”²⁸³ Additionally, the OAG noted that Xcel referenced its website for more information on education and experience of the Company’s leadership team. The OAG disclosed that in similar request by the Department, Xcel provided a supplemental response, that merely crossed referenced OAG request and attached the last five years’ job postings for its top ten positions.

Also, Xcel objected to the request to quantify the amount of time each of its ten highest-paid executives spent communicating with shareholders or potential shareholders and claimed the request would take hundreds of thousands of hours reviewing and analyzing the activity, calendars and communications. Xcel also stated that the request was vague and ambitious and may implicate attorney-client privileged communication.

Further, the OAG noted that Xcel refused to accede to the request to provide executive digital calendars or performance evaluations for the same reasons as stated above. With respect to performance evaluations, Xcel stated the request was an overreach as this would be invasive and irrelevant to the Commission’s role as a regulator instead of a manager or operator of the utility.

Accordingly, the OAG concluded:

Xcel’s objections and refusal to provide information on the time its executives spend on shareholder versus ratepayer interests, and Xcel’s refusal to provide employees’ performance evaluations, which may provide evidence of Xcel’s executives’ incentives, undermines the Commission’s ability to determine an appropriate measure of compensation that accounts for ratepayer and utility interests.

Additionally, OAG held that since the 1992 rate case²⁸⁴ the Commission has continued to cap incentive compensation plans (capping AIP and denying LTI) when it determines that those plans promote shareholder and not ratepayer interests. This was the case in Xcel’s 2021 electric case where it determined that Xcel’s AIP and LTI programs closely tie overall executive compensation to shareholder earnings. The OAG maintained similarly that in the present case executive compensation schemes heavily rely on incentive compensation, which shows the continuing influence of shareholder interests in executive compensation.

Further, OAG concluded that many of the same factors impacting ratepayers’ interest like high inflation, increase in cost living, increase in food prices and other economic pressures that were cited by the Commission in limiting Xcel’s rate increase in the 2021 case are still present or even higher today. The OAG also noted a spike in Xcel’s disconnection rate over the last two years, despite Xcel’s constant request for rate increases.

²⁸³ Schedule KH-D-4 (Xcel Supp. Response to DOC IR No. 123).

²⁸⁴ Ex. OAG–2 at 23 (Hinderlie Direct).

Accordingly, the OAG recommended that the Commission deny Xcel's full request for rate recovery of its ten highest-paid employees' compensation expense. The OAG stated that the information provided by Xcel focused primarily on its initial filing and emphasized in market-based compensation analysis. The OAG also noted that Xcel refused to provide requested information that would have enabled the OAG to formulate a recommendation on the appropriate amount of executive compensation that can meet the needs of ratepayers and the utility.

Considering the above views, the OAG held that Xcel bears the burden of proof that its requests are just and reasonable, and any doubt be resolved in favor of ratepayers.²⁸⁵ Therefore, the OAG requested adjustments of \$7,301,543 and \$7,575,008 to Xcel's 2025 test year and 2026 plan year, respectively.

4. Department of Commerce – Direct

The Department noted that Xcel sought to recover its ten top-paid executive compensation expense of \$7,301,543 in the 2025 test year and \$7,573,008 in the 2026 plan year in total Minnesota electric jurisdiction,²⁸⁶ comprising of base salary, AIP capped at 20%, environmental and time-based LTI, and other compensation, excluding other LTI.

As shown in OAG direct above, the Department stated that in Xcel's last rate case the Commission limited recovery of the ten top-paid executives' compensation to \$1.5 million per year (based on a limit of \$150,000 per executive), to align with the salary of the State of Minnesota's highest paid executive, the governor, and also precluded Xcel from recovering any AIP expense for its ten top-paid executives.²⁸⁷ Xcel appealed the Commission's decision to the Minnesota Court of Appeals (discussed in detail in OAG direct above). The Court agreed with the Commission that Xcel had not met its burden to prove that its top ten executive compensation costs were a reasonable and necessary cost of providing service.²⁸⁸ However, the Court remanded the case for additional findings, and stated the Commission's order had not adequately explained the governor's salary was an appropriate proxy for comparison for determining the recoverable compensation for the highest-paid executives of a large public utility.²⁸⁹ The Department disclosed that it reviewed the testimony of the Company's witnesses, Yen Ly and Robert Mustich, and stated:

In addition, the Department made several discovery requests to understand the amounts of ten top paid executives' compensation requested, how these compensation types are earned, how compensation of these highest paid executives compared to that of other staff at the Company,

²⁸⁵ 109 Minn. Stat. § 216B.03.

²⁸⁶ Ex. DOC-3, MBK-D-18 at 2 and 6 (Kehrwald Direct) (Xcel Revised Supplement Response to DOC IR No. 121,

Part B and Attachment A – page 2 of 3).

²⁸⁷ In re Northern States Power Company, dba Xcel Energy Appl. for Auth. to Increase Elec. Serv. Rates in Minn.,

Docket No. E-002/GR-21-630, FINDINGS OF FACT, CONCLUSIONS, & ORDER at 21-23 (July 17, 2023) (eDocket No. 20237-197559-01). See also, *id.*, at 23 and Order points 5 and 6.

²⁸⁸ In re Appl. by N. States Power Co., No. A23-1672, 2025 WL 249995, at *11 (Minn. Ct. App. Jan. 21, 2025).

²⁸⁹ *Id.*, at 12.

the roles and responsibilities of the ten top-paid executives, how the executives' performance is assessed and how their time is spent. An element of this line of discovery was discerning if these executives' motivations and time are more aligned with shareholder or ratepayer interests.

The Department stated that initially when Xcel was asked to provide position descriptions including percentage of time associated with each duty for the ten top-compensated roles, the Company directed the Department to the Company's leadership webpage. The Department considered this type of response to information requests to be non-responsive.²⁹⁰ The Department stated that the OAG experienced similar difficulties when it requested for calendar entry details, annual performance evaluations, descriptions of performance or other company evaluations of performance, and detail on incentive compensation determinations for the ten top-paid executives. Therefore, the Department and OAG filed a joint motion to compel discovery on the discovery requests and non-responsive answers. Though the motion was not yet ruled on before Department's direct testimony.

However, the Department did consider whether compensation earned by Xcel's ten top paid executives has any link to the Company's financial performance goals (shareholder interest) and found that financial goals are directly tied to LTI and AIP. Thus, the Department noted:

Long-term incentive compensation is provided in the form of Performance Stock Units (PSUs) and Restricted Share Units (RSUs), weighted 70% and 30% respectively.²⁹¹ This means that staff receiving LTI awards are inherently interested in the performance of the Company's PSUs and RSUs because it impacts the value of their awards. The Company uses a combination of relative total shareholder return (TSR) and environmental performance as the basis for measuring performance for Performance Stock Unit awards.²⁹²

AIP is subject to an earnings test based on Earnings per Share (EPS) before an AIP award can be paid. In addition to EPS determining if AIP can be paid out, AIP also has an EPS modifier component which "has the potential to decrease or increase core award funding by +/- 50%."²⁹³

The Department concluded Xcel failed to show that the pay for ten highest-paid executives' compensation was justified and that ten highest-paid executives' responsibilities, performance evaluations, and financial incentives are aligned with ratepayers, instead of shareholders' interests.

²⁹⁰ 2 Ex. DOC-3_, MBK-D-20 (Kehrwald Direct). Data retrieved from Our Leadership Team, Xcel Energy (last visited

Aug. 7, 2025). Available at: <https://corporate.my.xcelenergy.com/s/about/leadership-governance/company>. The

attachment excludes biographies for Robert Berntsen and Alice Jackson who are projected to be among the ten

top-compensated staff in 2025 and 2026 but did not have biographies on the linked site.

²⁹¹ Ex. Xcel-66_, RVM-D-1, Schedule 2 at 9 (Mustich Direct). See also, EX-Doc at 40 (Kehrwald Direct)

²⁹² Id.

²⁹³ Id., at 8.

Accordingly, the Department recommended the Commission:²⁹⁴

- Disallow recovery of all compensation expense for Xcel's ten highest-paid executives from MN ratepayers.
- Reduce Xcel's 2025 test year for the ten top-paid executives' compensation by \$2,873,465.
- Reduce Xcel's 2026 plan year for the ten top-paid executives' compensation by \$2,958,206.

5. Xcel Energy – Rebuttal

Xcel disagreed with the OAG and Department's recommendation to disallow recovery of all compensation for the Company's top ten highest paid employees from Minnesota electric jurisdiction. Xcel stated thus:²⁹⁵

Contrary to these parties' specious allegations, the Company's executives do not apportion their time between shareholder and ratepayer interests. They work to efficiently run an enterprise that provides safe, reliable, sustainable, and cost-effective power for our customers while meeting myriad state policy goals from the numerous jurisdictions we serve and are subject to.

Xcel further claimed that its executive responsibilities are structured to ensure appropriate balance between financial stewardship and operational performance, resulting in the delivery of safe, reliable and cost-effective service to customers.

Additionally, Xcel held that there exists no distinction between its work for shareholders and customers, because all the Company's employees, including executives, pool together to operate the Company in such a way to benefit customers and invariably the shareholders. Also, Xcel stated that the Company, like many other utilities, have relied on comparative market-based compensation data to support their position for decades.

Xcel opined that it was an illogical assumption by OAG to equate incentive compensation with shareholder interests as if the two are opposed to customer interests. Also, the Company noted that some incentive components may be tied to financial health of the Company within peer group, but this same financial health of the utility is beneficial to the ratepayers. The compensation for executives is intentionally designed with significant pay-at-risk to ensure "skin in the game" that benefits customers and shareholders than otherwise.

Xcel also disagreed with OAG's assertion that the Company provided materially similar evidence in this case as was the case in the last rate case. The Company provided an independent compensation study performed by Willis Towers Watson (WTW) that was specifically focused on Xcel Energy's executive compensation program and concluded Xcel's overall compensation levels and the design of incentive compensation programs were "reasonably competitive and consistent with market practices, based on multiple market perspectives."²⁹⁶

²⁹⁴ Ex.DOC-3 at 42 (Kehrwald Direct).

²⁹⁵ Ex-Xcel at 28 (Ly Rebuttal)

²⁹⁶ See Ex. Xcel-66_ (Mustich Direct).

Xcel considered unfair the Department's and OAG's criticisms regarding its response to discovery information requests on the allocation of executive time between customer- and shareholder-related activities. Xcel argued that it took OAG 8 months after the case was filed to request the Company provide the 2023 calendars for its top ten highest paid employees. Then about a week later, the Department filed a more onerous discovery that requested similar information but for years 2022, 2023, 2024, and 2025. Xcel objected to both requests and held:

..... objected to both of these requests because they have no relevance in determining the compensation for these employees, the invasive nature of these requests, and the substantial cost and effort to produce this information.²⁹⁷

However, the Department and OAG filed with the ALJ for the case a motion to compel. Xcel noted that it did produce 2023 and 2024 calendars and performance evaluation information for its top ten highest paid employees as required by the Administrative Law Judge's August 29, 2025 Order on the Department and the OAG's motion to compel.²⁹⁸

1. Office of the Attorney General - Surrebuttal

The OAG responded that Xcel witness Mustich' assertion that parsing costs based on benefits to customers versus shareholders is "arbitrary" is counter to a central principle of ratemaking in Minnesota and across the USA. The OAG described that since 1990, the Commission has maintained that both ratepayers and shareholders should bear incentive compensation costs.

The OAG agreed that in some instances, with Xcel Witness' claim that shareholders and ratepayers' benefits are interdependent. Also, the OAG agreed Xcel witness Mustich' claim that strong financial performance attracts shareholder capital which enables utilities to provide customers with reliable service, modern infrastructure, and reliable electricity."²⁹⁹ However, the OAG disagreed with the notion that a utility automatically passes the benefits of its strong financial performance to ratepayers. Additionally, the OAG denied being attributed to the statement that "all heavily incentive weighted compensation programs" align with shareholder interests, or that incentive compensation generally aligns only with shareholder interest. Nevertheless, it held:

The fact remains, however, that the Commission has denied or limited Xcel's incentive compensation because, following a searching review of the compensation structure, it has found it to be primarily driven by shareholder interests.³⁰⁰

²⁹⁷ In the Matter of the Application of Northern States Power Company d/b/a Xcel Energy for Authority to Increase Rates for Electric Service in the State of Minnesota, Docket No. E002/GR-24-320, XCEL ENERGY REPLY IN OPPOSITION TO MOTION TO COMPEL DISCOVERY (Aug. 8, 2025).

²⁹⁸ In the Matter of the Application of Northern States Power Company d/b/a Xcel Energy for Authority to Increase Rates for Electric Service in Minnesota, Docket No. E002/GR-24-320, ORDER GRANTING IN PART AND DENYING IN PART MOTION TO COMPEL (Aug. 29, 2025).

²⁹⁹ Mustich Rebuttal at 6.

³⁰⁰ See Hinderlie Direct at 22-25, Schedule KH-D-7 – KH-D-8.

The OAG disagreed with Xcel witness Ly's claim that there exists no distinction between the Company's work for shareholders and work for ratepayers, like Witness Mustich's claim that the benefits to ratepayers and shareholders are interdependent. The OAG noted that Xcel's claim that its ratepayers are better off than cooperative and municipal ratepayers in terms of the cost of paying executives is misplaced. The OAG explained that the rate recovery that these self-governed organizations may allow for their highest-paid employees has little bearing on whether it is just and reasonable for a rate-regulated public utility's customers to pay these costs. Besides, the municipal and cooperative utilities have no shareholders, and as such, have no need for determining the right split for the executive compensation structure.

The OAG stated that Xcel was compelled by the ALJ to provide calendar entries for 2023 and 2024 for its top ten highest-paid employees and officers, excluding individuals serving as general counsel³⁰¹ and each employee's or officers' 2024 annual performance evaluations.³⁰² Accordingly, Xcel provided heavily redacted calendar entries and two performance reviews for two of its top ten highest employees. But upon review, the OAG found that neither set of materials provided sufficient evidence of ratepayer related activities or benefits to justify recovery of Xcel's proposed executives' compensations, nor did they provide a meaningful allocation of costs between ratepayers and shareholders.

In conclusion, the OAG stated Xcel has not provided evidence supporting an appropriate level of rate recovery for the ten highest-paid employees beyond the full recovery the Commission rejected in Xcel's 2021 rate case. The OAG believed Xcel has failed to meet its burden of showing that ratepayers should fund a portion of compensation for these employees. The OAG agreed that compensation plans can serve as important management tool that communicates what is important to an organization. However, the OAG disagreed with Xcel's assertion that its current compensation plans align with its ratepayer interests. Additionally, the OAG concluded that Xcel lacked a robust performance evaluation structure for its executives that should include meaningful feedback regarding the non-earnings-per-share based goals that the Company claims its incentive programs espouse.

Further, the OAG suggested the Commission should explore the potential of tying cost recovery for executive compensation to ratepayer-centered performance metrics, similar to the approach used by of Public Utilities Regulatory Authority (PURA) of Connecticut. PURA ties total executive compensation a utility can recover to its performance on affordability metrics.³⁰³ The metric PURA uses include payment regularity, payment coverage, nonpayment disconnection and average monthly arrears. The OAG, however cautioned against the Commission adopting metrics set in another jurisdiction without further analysis of fit with Minnesota Jurisdiction.

2. Department of Commerce – Surrebuttal

³⁰¹ Order Granting in Part and Denying in Part Motion to Compel at 7.

³⁰² Id., at 8-9. See also Ex-OAG at 13 (Hinderlie Rebuttal).

³⁰³ Application of Connecticut Water Company to Amend Its Rate Schedule, Connecticut PURA Docket No. 23-08-32, Decision at 69-74 (June 28, 2024), available at [https://www.dpuc.state.ct.us/FINALDEC.NSF/811195c865ca31ba852588e2005e7a7d/36dafc592d8e7ee885258b4a004d8d9f/\\$FILE/230832-062824.pdf](https://www.dpuc.state.ct.us/FINALDEC.NSF/811195c865ca31ba852588e2005e7a7d/36dafc592d8e7ee885258b4a004d8d9f/$FILE/230832-062824.pdf) (PURA Decision)

The Department recommended disallowing recovery of all compensation for the ten top paid executives for Minnesota electric ratepayers. The Department held that Xcel failed to show that the ten top-paid executives' responsibilities, performance evaluations, and financial incentives were aligned with ratepayers rather than shareholders' interests. The Department noted with this recommendation and earlier recommendations to deny recovery of LTI and applying 20% cap to AIP recovery on an individual basis with adjustments will reduce Xcel's test years recovery of the ten top-paid executives' compensation to zero. The Department recommended adjustments of \$2,873,465 and \$2,958,206 for the 2025 and 2026 test years, respectively.

The Department noted that Xcel's witness Ly disagreed with the above recommendation and OAG's recommendation. Xcel argued that Company's executives never allocate their time between shareholder and ratepayer interests but instead their work benefits both customers and shareholders and helps attract investments necessary to keep costs low.³⁰⁴ Another Xcel witness, Mr. Mustich, argued that incentives tied a significant portion executive pay to measurable results thus making the company's compensation plans necessary management tools to drive employee performance towards meeting corporate goals.³⁰⁵ However, the Department countered that Xcel, despite its arguments, failed to provide performance evaluations, demonstrate achievement of goals, or quality of performance for eight of the ten top-paid executives. As noted by the Department, Xcel did produce 2023 and 2024 calendars and performance evaluation information as directed by the ALJ, but only eight calendars and just two performance evaluation information for its top ten highest paid employees were received. Xcel stated that top ten executives for whom no performance evaluation was attached do not receive written performance reviews. The Department in retort stated:³⁰⁶ The Company's insistence that the performance reviews provided are the only written reviews that exist for these roles suggests a disconnect between these roles and oversight. Without performance reviews, we cannot understand what goals or deliverables these individuals are charged with nor how they are performing against expectations. Customers should not be spending millions of dollars to pay for these high-level staff who aren't clearly accountable for performance.

The Department agreed with Xcel's witness Mustich claim that the typical purpose of a compensation study is to provide benchmarking data for compensation decisions. However, the Department argued that such study does not address the appropriate amount of compensation that should be recovered in the regulatory context. The Department believed the Company's reliance on compensation study as justification for requiring ratepayers to pay for the compensation of not only general staff but also its ten top-paid executives, to be unjustified.

Further, the Department noted that though it agreed with Xcel's witness assertion that the Company serves the interests of both customers and shareholders,³⁰⁷ yet held:

³⁰⁴ Ex. Xcel-65 at 28 (Ly Rebuttal).

³⁰⁵ Ex. Xcel-67 at 9 (Mustich Rebuttal).

³⁰⁶ Ex-DOC at 50 (Kehrwald Surrebuttal)

³⁰⁷ Ex. Xcel-65 at 28 (Ly Rebuttal).

Similar to my discussion on the AIP and LTI program, I continue to believe that the Company has intentionally linked incentive compensation to maximizing investor returns, and with the large ratio of incentive compensation that the Company budgets for the ten top-paid executives, this aligns the interests of the ten top-paid executives with the Company's profitability.³⁰⁸

The Department also stated that it believed Company excluded nearly 40% of the ten top-paid executives' compensation from its recovery request because it recognized that it's unreasonable to seek recovery of that compensation from ratepayers. Additionally, the Department noted that heavy weighting of executives' compensation to incentive compensation (for example, CEO Robert Frenzel's incentive compensation was 1,524% of his base salary in 2023)³⁰⁹ clearly shows an alignment of the top executives' interests with those of shareholders. The Department therefore recommended, as stated in the opening paragraph, to its surrebuttal that all compensation for the ten top-paid executives be disallowed for recovery from Minnesota electric jurisdictional ratepayers. Also, recommended the adjustments of \$2,873,465 and \$2,958,206 for 2025 test year and 2026 plan year be made.

Further, the Department suggested alternatives should the Commission not adopt its recommendation above, as follows:

Alternative 1

The Commission should limit ratepayer recovery of the ten top-paid executives' compensation to a maximum of 50% of the Minnesota electric jurisdictional amount after applying the outcome of all other compensation and benefit-related decisions (i.e. first apply any limitations on LTI and AIP recovery).

- a. If the recommendations for LTI and AIP are adopted, this alternate approach to the ten top-paid executives' compensation would result in the adjustments of \$1,436,732 for 2025 Test Year and \$1,479,103³¹⁰ in 2026 Plan Year, respectively.

The Department stated that reasoning for suggesting the above alternative recommendation was because the Commission had in several past rate cases supported capping recovery of costs to 50% when the costs promote both ratepayer and shareholder interest. The Department noted some of those costs include e board of directors' compensation,³¹¹ investor

³⁰⁸ Ex. DOC-3_ at 36-39 (Kehrwald Direct), see also Ex. DOC at 55 (Kehrwald Surrebuttal).

³⁰⁹ Ex. DOC-3 at 41 (Kehrwald Direct). See also Ex-DOC at 58 (Kehrwald Surrebuttal). Calculation is based on 2023 actual figures for Robert Frenzel, Chairman, President and CEO: AIP of \$1,811,160 + Environmental and Time-based LTI of \$13,500,046 + Other LTI of \$4,499,965 = Incentive Compensation of \$19,811,171 / Base Salary of \$1,300,000 = 1,524%

³¹⁰ Ex. DOC-4_, MBK-S-13 at 2, column labeled "Alternate 1 Cap" (Kehrwald Surrebuttal) (Department annotated

surrebuttal version of Company's supplemental revised response to DOC IR 121, Attachment A page 2).

³¹¹ Ex. DOC-4 at 60 (Kehrwald Surrebuttal). See also In re Minnesota Power's Appl. for Auth. to Increase Elec. Serv. Rates. in Minn., Docket No. E-015/GR-23-155, EXECUTED SETTLEMENT AGREEMENT at 7 (May 3, 2024) (eDocket No. 20245-206372-01)

relations,³¹² Chamber of Commerce dues,³¹³ community events,³¹⁴ and economic development costs.³¹⁵

Alternative 2

Set cap at the employee's total compensation level and it be subject to the jurisdictional allocators to calculate the Minnesota electric jurisdictional amount eligible for recovery for these roles-using as benchmark for cap the highest amount paid to Minnesota agency head of \$190,008 as of January 1, 2025³¹⁶ or the federal executive compensation limit for government contractors of \$671,000 as of January 1, 2025.³¹⁷

- a. Cap recovery to \$190,008 similar to the highest amount paid to Minnesota Agency head as of January 1, 2025 or
- b. Cap recovery to \$671,000 similar to the highest amount paid by the federal executive to federal government contractors as of January 1, 2025

The Department reasoned that since the compensation limit was deemed appropriate by Minnesota state law makers as reasonable pay for high responsibility, strategic and organizational leadership roles, then it should be a reasonable proxy for use in the instant case.

Finally, the Department also recommended Xcel be required to submit compliance filing after Commission issues final approval for amounts of base pay, AIP, and executive compensation.

3. ALJ Report

The ALJ found:

614. The Commission should conclude that, for the same reasons as articulated in Xcel's most recent rate case, the Company has failed to prove that it would be just and

³¹² Ex. DOC-at 60 (Kehrwald Surrebuttal). See also Docket No. E-002/GR-12-961, FINDINGS OF FACT, CONCLUSIONS, & ORDER at Order Point 2 (Sep. 3, 2013) (eDocket No. 20139-90902-01). Order Point 2.

³¹³ Id., also see In re Dakota Energy Association Appl. for Auth. to Increase Elec. Serv. Rates in Minn., Docket No. E-111/GR24-400, STIPULATED FINDINGS OF FACT, CONCLUSIONS OF LAW, & RECOMMENDATION TO APPROVE SETTLEMENT, APPENDIX A at 10-11 (Oct. 16, 2025) (eDocket No. 202510-224024-02).

³¹⁴ Id., see also In re Northern States Power Company, dba Xcel Energy Appl. for Auth. to Increase Elec. Serv. Rates in Minn., Docket No. E-002/GR-21-630, FINDINGS OF FACT, CONCLUSIONS, & ORDER at 74-75 and Order Point 40 (Jul. 17, 2023) (eDocket No. 20237-197559-01)

³¹⁵ Id.

³¹⁶ Ex. DOC-4, MBK-S-14 (Kehrwald Surrebuttal). Data retrieved from Agency Head Salary Limits, Minnesota Management and Budget (last visited Nov. 6, 2025). Available at: <https://mn.gov/mmb-stat/documents/agencyhead-salary-limits/agency-head-p>

³¹⁷ Ex. DOC-4, MBK-S-15 (Kehrwald Surrebuttal). Data retrieved from Contractor Compensation Cap for Contractors Awarded on or after June 24, 2014, Biden White House Archives (last visited Nov. 6, 2025). Available at: <https://bidenwhitehouse.archives.gov/wp-content/uploads/2024/11/ContractorCompensationCapContractsAwardedafterJune24-UPDATE-NOV-2024.pdf>.

reasonable for customers to pay for its requested level of compensation for its ten highest-paid executives.

615. If the Commission approves recovery here, it would necessarily beg the question of what level of recovery is appropriate. However, as the Court of Appeals reasoned, even if the decision to disallow the Xcel's requested recovery level is sound, any alternate level of recovery must independently be supported by the record.

616. Despite the OAG and Department's efforts through discovery, the record here does not support meaningful analysis of how these executives spend their time and the extent to which their activities benefit customer interests rather than shareholder interests.

617. To be sure, the divide between shareholder interests and customer interests is not a bright line. Customers derive a benefit from a financially sound utility that is able to provide safe and reliable service. Further, the financial state of a utility impacts, among other things, its cost of debt; a cost which is ultimately borne by customers. Also, efficiencies leading to reductions in utility expenses benefit shareholders in the short term and, once those reductions are incorporated into a utility's next rate case, customers in the longer term.

618. That said, there is also a divergence in these interests. A utility's corporate profits are driven by rates charged to captive customers. All else being equal, it should not be controversial to observe that shareholders have an inherent interest in rates being higher, while customers have an inherent interest in those same rates being lower.

619. No party argues, nor could they do so seriously, that customers could enjoy the benefit of safe and reliable electric service without functioning executive leadership. Customers should pay a portion of the costs of that leadership. Accordingly, denying Xcel the ability to recover any level of compensation for its ten highest paid executives in perpetuity would be an unjust and untenable outcome, even if it is the outcome mandated in this proceeding by this record.

620. The OAG suggested that, in a separate docket, the Commission should explore creation of a PIM that would allow Xcel to recover a portion of executive compensation if it met certain ratepayer-focused metrics.

621. The Commission should disallow the Company's request for rate recovery of compensation for its ten highest-paid executives because the Company has failed to meet its burden to prove the amount that customer should pay for these individuals, and the record supports no other specific level of recovery.

622. The Commission should also initiate a proceeding to examine Xcel's executive compensation and what, if any, mechanisms are appropriate to ensure the Company is

able to earn just and reasonable rate recovery, at an appropriate level, of a necessary cost of providing electric service.

4. Exceptions to the ALJ Report

a. Xcel Energy

Xcel objected to the ALJ recommendation and urged the Commission not to adopt the ALJ recommendation that it disallow all compensation paid to the Company's top ten highest paid executives. Xcel argued that this recommendation is not consistent with the law, neither is it supported by the record in this case and varies from how the Commission treats other similar costs.

Xcel requested rather than complete disallowance of recovery of its executive compensation, the Commission should allow alternative recovery amount based on the Minnesota municipal utilities and electric cooperatives which provide a relevant alternative compensation benchmark, since they are customer-owned or publicly accountable entities. Company witness Yen Ly's Rebuttal Testimony provided a compilation of 2023 base pay for the top executive at 14 Minnesota municipal and cooperative utilities, together with those utilities' reported Minnesota electric customer counts, and an approximate annual cost per customer. Xcel noted this benchmark was provided as evidence of reasonableness its request and suggested thus:

...the Commission could use this same dataset as record support for an alternative recovery amount for executive compensation. Specifically, the Commission could set the Company's rate recovery in this proceeding by referencing what Minnesota municipal and cooperative customers fund for executive leadership, adjusted for economies of scale where appropriate.

The Company maintained that Minnesota ratemaking law requires the Commission to set rates that reflect the reasonable and necessary cost of furnishing service (including prudently incurred labor costs) and executive leadership is a necessary cost. Xcel noted that no party argued on the record against the fact that having a strong and talented executive is essential to running a utility and as such, compensation for these employees represents a necessary cost.

Xcel noted that the ALJ to justify its recommendation alluded to three concerns that were identified in the Commission's decision in the last electric case on executive compensation that remain unresolved by the record in the instant case as well. Those concerns include: ALJ alleged that Xcel's claim that its evidence that showed the Company's executive compensation in line with other utility employers in the labor market was beside the point since the Company still bears the burden to prove that Xcel's customers should pay a portion of this cost versus shareholders. In fact, Xcel countered that:

The problem with this analysis is that it rests on a faulty premise that customers do not need to pay the utility's necessary costs of providing service. The Company's compensation study demonstrates that it pays its executives amounts that are

competitive, and market based.... The fact that shareholders may also benefit from a specific cost does not mean that it is unnecessary for the provision of utility service.³¹⁸

The second concern the ALJ alluded to be the intervenor theme that the incentive-based executive compensation aligns executives with shareholder interests, meaning their compensation should not be borne by customers. However, Xcel argued both ALJ and the intervenor seemed hooked on one piece of compensation structure to be evidence of shareholder alignment related to the Company's earnings per share (EPS). Xcel held that it had explained previously that EPS serves merely as a measuring tool to ensure the Company is performing at a minimum sustainable financial level before incentive compensation is paid out.

The third concern ALJ alluded to was Commission's prior concerns about customer affordability from the Company's last rate case remain in this proceeding and warrant disallowance of these costs. Xcel retorted that it appreciated the ALJ and the parties' concerns about affordability. However, the Company stated that the legally permissible remedy for such concerns is not to deny a necessary cost of service but to instead offer targeted affordability programs and to make measured changes to revenue apportionment.³¹⁹

Therefore, Xcel implored the Commission reject the ALJ's recommendation and instead allow Xcel to recover its proposed executive compensation or adopt an alternative recovery amount based on the record provided in this case.

Xcel supported the ALJ's recommendation the Commission "initiate a proceeding" to examine the Company's executive compensation and determine the appropriate level of recovery for these costs. However, an issue that may be speculated for a future rate case proceeding does not now provide for sound reasoning for denying recovery of a necessary cost as proposed by the Company in the instant case.³²⁰

5. Staff Analysis

Xcel has requested on multiple occasions Commission approval to recover compensation for its ten top highest employees, and in this case has submitted a voluminous amount of information, including engaging third-party solicitors to make the case for either through visible presentation/appearance or submission of what it claimed as reason study on the matter. Some parties to the case have vigorously argued on the structure – the EPS metrics, what amount or level is appropriate, the underlying skewing of zeal towards shareholder interest at the disadvantage of ratepayer by the executives and pending legals about the matter, all these make the issue a difficult and complicated one for resolution to date. And in these uncertain hard economic times with all the attendant financial hardship facing ratepayers may pose perception of unfairness to ratepayers by any slight tilt towards granting Xcel's wish at this time. As suggested by the ALJ report it may be helpful perhaps for the Commission to initiate a

³¹⁸ Xcel, Exception at 17.

³¹⁹ Id., at 19.

³²⁰ Id., at 22.

proceeding with unbiased (if at all) professionals versed in the subject matter to examine mechanisms that result in appropriate level what can be allowed by the Commission.

6. Decision Options

1058 Allow recovery of all compensation for ten top highest paid executives from Minnesota electric jurisdiction ratepayers requested by Xcel. (Xcel)

1059 Deny recovery of total Minnesota electric jurisdiction ten top-paid executive compensation amounts of \$7,301,543 and \$7,573,008 in 2025 and 2026 respectively. (Department, OAG, ALJ)

1060 Establish a set cap salary permitted for use in a recovery calculation for Ten top-paid executive roles subject to the jurisdictional allocators to calculate the Minnesota electric jurisdictional amount eligible for recovery for these executive roles. (Department)

1061 Establish Performance Incentives Mechanisms which would allow recovery of a portion ten top highest paid executive compensation on condition of meeting ratepayer-focused metrics. (OAG)

1062 Delegate authority to the Executive Secretary to initiate a proceeding to examine Xcel's executive compensation and what, if any, mechanisms are appropriate to ensure the Company is able to earn just and reasonable rate recovery, at an appropriate level, of the necessary cost of providing electric service. (ALJ)

R. Limited Availability Benefits

1. Issue

Should the Commission allow Xcel to recover the costs of limited availability benefits offered to executives and vice-presidents and not all employees?

2. Department of Commerce – Direct

The Department observed that Xcel provided no direct testimony on its limited availability benefits (also referred to as Perks by the Department) offered to executives but unavailable to other employees. In response to the Department's information request (IR) 124, Xcel confirmed that the Company offers two primary perquisites benefits, namely reimbursement programs for executive physicals and executive financial, tax, and estate planning services.³²¹ The Department indicated the allowances of up to \$6000 for physicals and \$12,480 for financial expenses per year for executives and vice presidents.³²²

³²¹ Ex. DOC- 3_, MBK-D-28 at 1 (Kehrwald Direct) (Xcel Response to DOC IR 124, part B).

³²² Ex. DOC- at 48 (Kehrwald Direct).

The Department noted that Xcel included \$103,003 in both 2025 and 2026 for additional executive benefit amounts for employees on a Minnesota Electric jurisdiction basis for recovery. The Department argued that employees who are eligible for these benefits already receive from the Company significant and comprehensive benefits, including pension, 401(k), health and dental, life insurance, long-term disability, retirees medical, and recognition awards, all of which are included for recovery from ratepayers in this proceeding.

Accordingly, the Department recommended that the Commission disallow recovery of these limited availability perks expenses from ratepayers, as Xcel has failed to show any reasonable basis for ratepayers to bear the costs of these expenses for these already highly paid employees. The Department as a result recommended Xcel's limited availability benefits be reduced by \$103,003 and \$103,000 for 2025 test year and 2026 plan year, respectively.

3. Xcel Energy – Rebuttal

Xcel disagreed with the Department's recommendation to deny recovery of limited availability benefits offered to executive employees. Xcel noted that 72% of the utilities in its peer group provide executives with financial, tax, and estate planning services to allow them to focus their time and attention on the company's business. Further, Xcel's witness Mustich opined that denying the Company a portion or all Employee compensation costs based on how they are delivered would undermine Xcel's ability to recover costs that are aligned with customer interests and reasonable in the competitive market. Xcel witness Ly argued that these modest expenses help enhance the Company's competitive compensation package to attract and retain leaders with unique skills needed for executive roles.

4. Department of Commerce – Surrebuttal

The Department continued to hold that the employees receiving these limited availability perks are among Xcel's highest paid employees. Contrary to Mustich's assertion, the Department stated that it is not arbitrary to exclude certain benefits from recovery from ratepayers if they do not appear to be in the interest of ratepayers, appear to be gold plating (excessive benefits), or are not widely available to staff.³²³ Additionally, the Department opined that Xcel is free to provide whatever benefits it deemed appropriate, but that does not mean that it is appropriate for customers to pay for these expenses.

The Department continued to recommend recovery disallowance of limited availability perks available only to executives and vice presidents from ratepayers and reduce perks by \$103,003 in both 2025 test year and same amount in 2026 plan year.

5. ALJ Report

The ALJ recommended that Xcel be allowed to recover the costs for limited availability benefits of \$103,003 (State of Minnesota Electric Jurisdiction) in both 2025 test year and 2026 plan year. The limited liability benefits provide benefits to Xcel's customers by reducing executive

³²³ Ex. DOC-4, at 63 (Kehrwald Surrebuttal).

turnovers, thereby forestalling the expensive costs of constant recruitment and transitions that can adversely affect the Company's operations. Besides the record has established these benefits are customary with compensation packages for utility executives.³²⁴

The ALJ found:

627. The limited availability benefits provide benefits to customers by reducing executive turnover. Executive turnover is expensive because it involves paying recruitment and transition costs and can also be disruptive to Company operations. Another customer benefit provided by these limited availability benefits is that they help ensure that these employees are healthy and able to focus on the needs of the Company and its customers.

628. These benefits are appropriate for rate recovery. Notwithstanding the Department's characterization of them as "perks," the record establishes that they are a normal part of compensation for these types of utility employees

629. Absent independent concerns about overall compensation levels, it is irrelevant that some portion of compensation takes the form of limited availability benefits.

It would be arbitrary to disallow recovery of a portion of an otherwise appropriate level of recoverable compensation merely because that compensation takes the form of limited availability benefits.

630. The Company has met its burden to prove the reasonableness of including these costs in rates, and the Commission should allow the Company to recover its limited availability benefits

6. Exceptions to the ALJ Report

There were no exceptions to ALJ.

7. Staff Analysis

Staff agrees with Xcel position that denying Xcel Energy a portion or all of employee compensation costs based on how they are delivered would undermine the Company's ability to recover costs that are aligned with customer interests and reasonable in the competitive market and especially in utility operations where limited liability benefits are customary part of compensation packages for recruitment and retention of leadership talent. Staff therefore supports the ALJ findings that the Company has met its burden to prove the reasonableness of including these costs in rates. Staff also support the ALJ recommendation Xcel be allowed to recover its limited availability benefits, as reasonable.

³²⁴ ALJ Report 626-628.

8. Decision Options

1063 Allow Xcel to recover its proposed limited availability benefits of \$103,003 in both 2025 test year and 2026 plan year. (Xcel, ALJ)

1064 Deny Xcel's request to recover its limited availability benefits of \$103,003 in both 2025 test year and 2026 plan year. (Department)

S. Miscellaneous Benefits, Life, Long-Term Disability (LTD) Expenses

1. Issue

Should the Commission approve Xcel's requested recovery of its miscellaneous benefit, life, and LTD expense in the amount of \$3,976,149 for 2025 and \$3,990,839 for 2026?

2. Xcel Energy – Direct

Xcel proposed a budget of \$3,976,149 in 2025 and \$3,990,839 in 2026 for miscellaneous benefits, life insurance, and LTD expenses, based on employee pay and historic claims.³²⁵ In support of these costs, Xcel opined that they are essential to its operations without which, the Company would be unable to attract, retain, and motivate qualified employees. The Company noted it as appropriate that customers pay for these benefits because they reflect reasonable and necessary expenses and reflect commitments that the Company made to employees who provided quality service to NSPM customers for many years.³²⁶

3. Department of Commerce - Direct

The Department reviewed Xcel's historic and proposed miscellaneous benefits, life insurance, and LTD expenses. The Department observed that these expenses were relatively flat from 2021 to 2024 with annual fluctuations. The Department noted Xcel had forecasted the 2024 expenses to be \$0.48 million higher than the actual 2024 expenses (\$3,900,067) and with this in mind the Company projected the 2025 and 2026 test years with slight increases over the 2024 forecast. The Department agreed that the costs are impacted by provider contracts, employee pay, and historic claims. The Department suggested that since these costs are based on employee pay and historic claims, it would be appropriate to revise the test year's figures based on the Company's actual experience.

Thus, the Department proposed using the average of 2022 – 2024 actual miscellaneous benefit, life, and LTD expenses, and applying an inflator based on the average annual increase from 2021 to 2024 to calculate both the 2025 and 2026 test year amounts.³²⁷

Accordingly, the Department recommended Xcel's miscellaneous benefit, life, and LTD Expense be reduced by \$551,597 and \$490,067 in 2025 test year and 2026 plan year.

³²⁵ Ex. Xcel-at 8 Table 1 (Ly Direct).

³²⁶ Ex. Xcel-57– at 51-52 (Schrubbe Direct).

³²⁷ Ex. Xcel- at 44 (Kehrwald Direct). See also, Ex. DOC-____, MBK-D-6 (Kehrwald Direct) (Department version of Attachment C from Xcel's Second Supplemental Response to DOC IR No. 122).

With this adjustment Xcel's miscellaneous benefit, life and LTD amounts would be \$3,424,552 in 2025 test year and \$3,500,772 in 2026 plan year, respectively.³²⁸

4. Xcel Energy – Rebuttal

Xcel offered no rebuttal to the Department's direct.

5. Department of Commerce – Surrebuttal

The Department noted that Xcel did not offer any rebuttal to its proposed adjustment, though in discovery request the Company did veer from its initial requests, therefore the Department held to its recommendation that Xcel as was stated in direct testimony.

6. Administrative Law Judge Report

The ALJ Report noted that no party disputed the reasonableness of recovering these types of expenses. However, the Department recommended that miscellaneous benefits, life, and LTD expenses be calculated for the 2025 Test Year and the 2026 Plan Year based on an average of Xcel's actual expenses from 2021 to 2024, and apply an inflator based on the average annual increases from 2021 to 2024. The ALJ agreed with the Department's proposal to use actual historical data rather than the Company's projection as reasonable.³²⁹

The ALJ recommended the Commission allow Xcel to recover Miscellaneous Benefit, Life, and LTD expenses at a level set by applying the Department's proposed methodology and inflation factor to actual 2024 expenses.³³⁰

The ALJ Found

631. The Company requested recovery of its miscellaneous benefit, life, and LTD expense in the amount of \$3,976,149 for 2025 and \$3,990,839 for 2026.

632. No party disputes the reasonableness of rate recovery of these types of expenses.

633. The Department, however, recommended that miscellaneous benefits, life, and LTD expenses be calculated for the 2025 Test Year and the 2026 Plan Year based on an average of Xcel's actual expenses from 2021 to 2024, and apply an inflator based on the average annual increases from 2021 to 2024. The Department's position is that it is more accurate to use actual averages than to apply an inflator to the 2024 projection, which exceeded Xcel's 2024 actual costs. The impact of the Department's recommendation is a \$551,597 reduction to the 2025 Test Year and a \$490,067 reduction to the 2026 Plan Year.

³²⁸ Id.

³²⁹ ALJ Report 632-637

³³⁰ ALJ Report 639

634. The Company argues that it adequately supported the amount of miscellaneous benefit, life, and LTD expense for 2025 and 2026. Specifically, Table 2 of Company Witness Schrubbe's Direct Testimony sets forth the amounts incurred in 2023, the forecasted amounts for 2024, and the forecasted amounts for each year of the MYRP. Schedules 2 and 15 of Witness Schrubbe's Direct Testimony also provide additional data, including a comparison of expense amounts in 2025 and 2026 to actual amounts incurred in prior years, as well as a further breakdown of costs in the 2025 Test Year.

635. The argument on this issue can effectively be reduced to whether it is more reasonable to adopt rates for 2025 and 2026 based on Xcel's 2025 and 2026 projections for these costs or based on actual data after the Department has established that the 2024 projections were higher than actual expenses.

636. Certainly, absent an established true-up mechanism, an MYRP should not be used to retroactively refund customers for individual expense categories where projections exceeded actual expenses. That said, the 2024 over-projection raises doubt about whether the projection would result in more accurate expense levels for 2025 and 2026 than using inflation-adjusted actual data would.

637. Unlike Energy Supply O&M expenses, the record does not sufficiently explain the 2024 over-projection for these expenses. Accordingly, the Department's proposal to use actual historical data rather than the Company's projection is reasonable.

638. However, the Department's proposal should be modified. The historical data from 2021 to 2024 relied on by the Department, notwithstanding a slight decline from 2022 to 2023, shows a clear upward trend. Setting the baseline at the average of those years would result in the Company under recovering these expenses.

639. Accordingly, the Commission should authorize the Company to recover Miscellaneous Benefit, Life, and LTD expenses at a level set by applying the Department's proposed methodology and inflation factor to 2024 actual expenses, as opposed to the Department's suggested average of actual expenses from 2021 through 2024.

7. Exceptions to the ALJ Report

a. Xcel Energy

Xcel agreed with the ALJ recommendation that it be allowed to recover miscellaneous benefit, life insurance and LTD expenses but not based on a level set by applying the Department's proposed methodology and inflation factor to 2024 actual expenses. Though the ALJ recognized that the Department's methodology would result in the Company underrecovering these expenses, it found that Xcel's 2024 forecast was higher than actual and as a result it ruled that the Department's proposal based on historical data was reasonable than the Company's proposed costs.

Xcel Energy's argued that its approach to forecasting its costs in the instant case to be consistent with longstanding practice and precedent in the Company's prior rate cases which contrasts with the Department's recommendation (as adopted by the ALJ) that has no basis in past Commission practice or precedent.³³¹ Therefore, Xcel continued to request it be allowed to recover the Company's forecasted miscellaneous benefit, life, and LTD expenses

8. Staff Analysis

Staff supports the ALJ Findings and recommendation that Xcel be allowed to recover its Miscellaneous Benefit, Life insurance, and LTD expenses based on the Department's proposed methodology, applying the inflation factor to 2024 actual expenses, rather than using the Department's suggested average of actual expenses from 2021 through 2024 as reasonable.

9. Decision Options

1065 Allow Xcel to recover to recover Miscellaneous Benefit, Life, and LTD expenses at a level set by applying the Department's proposed methodology and inflation factor to 2024 actual expenses, as opposed to the Department's suggested average of actual expenses from 2021 through 2024. (Xcel, ALJ)

1066 Deny Xcel's request to recover its proposed Miscellaneous Benefit, Life, and LTD expenses amounts of \$3,976,149 in 2025 test year and \$3,990,839 in 2026 plan year. (Department)

1067 Accept the Department's recommended adjustment amounts of \$551,597 for 2025 and \$490,067 to Xcel's proposed Miscellaneous Benefit, Life, and LTD expenses for 2025 test year and 2026 plan year and authorize Xcel to recover the adjusted Miscellaneous Benefit, Life, and LTD expenses of \$3,424,552 in 2025 test year and \$3,500,772 in 2026 plan year. (Department, ALJ)

T. Non-Quality Expenses

1. Issue

Should the Commission allow Xcel to recover its budgeted non-qualified expenses in 2025 test year and 2026 plan year?

2. Department of Commerce – Direct

In its direct testimony, the Department described non-qualified expenses and the related Internal Revenue Service (IRS) limitations. The Department explained that non-qualified expenses refer to amounts paid to highly compensated employees who exceed the IRS compensation limit for 401(k) matching contributions. Also, the Department noted that non-qualified expenses are generally not tax deductible for income tax purposes and are only offered to executives and other select employees. The Department stated that Xcel did not

³³¹ Xcel, Exception at 31.

offer testimony on non-qualified expenses, and that Department only became aware of Xcel's non-qualified expenses through the discovery process. The Department also described the IRS limitations thus:

The IRS establishes salary deferral, annual compensation, and total employee and employer contribution limits for 401(k) plans.³³²It imposes these limits to ensure that 401(k) plan tax benefits “provide substantive benefits for rank and file employees, not only for business owners and managers,” and requires annual testing “to ensure that employer contributions made on behalf of rank-and-file employees is proportional to contributions made on behalf of owners and managers.”³³³

The Department noted that in 2024 the IRS 401(K) salary deferral limit was \$23,000 and annual compensation limit was \$345,000.³³⁴The Department opined that a nonqualified deferred compensation plan allows employees to defer compensation exceeding these IRS limit, hence more advantageous for highly compensated staff.

The Department noted that Xcel stated in response to the Department's IR 120 that it included \$44,662 in the 2025 test year and \$48,394 in the 2026 plan year in nonqualified benefit plan expenses. In support of its request, Xcel explained in its IR response (IR#120) that Deferred Compensation Plan is an essential component of maintaining competitive total rewards edge and is a common practice among peer companies, which helps to attract and retain talent. In fact, the plan with its tax savings advantage allows employers like Xcel to match contributions that would otherwise be limited by the IRS caps.

However, the Department viewed this as unallowable expenses for recovery and cited past Commission cases where it disallowed such expenses as precedents, thus:

The Commission has disallowed recovery of non-qualified benefit expenses in several rate cases. The Commission denied, or the Company agreed to the Department's adjustment to deny, non-qualified benefit expenses in CenterPoint Energy's 2021 and 2013 rate cases, Minnesota Power's 2016 rate case, Minnesota Energy Resources Corporation (MERC) 2015 and 2010 rate cases, Xcel Electric's 2013 and 2012 rate cases, Otter Tail Power's (OTP) 2010 rate case.³³⁵

³³² Ex. DOC-3, MBK-D-26 at 1 (Kehrwald Direct). Data retrieved from 401(k) plans – Deferrals and matching when compensation exceeds the annual limit, Internal Revenue Service (last visited Jul. 25, 2025). Available at:

<https://www.irs.gov/retirement-plans/401k-plans-deferrals-and-matching-when-compensation-exceeds-the-annual-limit>

³³³ Ex. DOC-3, MBK-D-27 at 4 (Kehrwald Direct). Data retrieved from Operating a 401(k) plan, Internal Revenue Service (last visited Jul. 25, 2025). Available at: <https://www.irs.gov/retirement-plans/operating-a-401k-plan#:text=%20vesting%20schedule>.

³³⁴ Ex. DOC-3 at 46 (Kehrwald Direct).

³³⁵ Id., at 47.

The Department noted that Xcel did not disagree with the assertion about Commission past disallowance of recovery of non-qualified expenses. However, Xcel opined that the Commission is not bound by its precedent because a ruling in exact same issue in prior case may not necessarily be reasonable when applied to the instant case. Therefore, Xcel insisted that it should be allowed to recover its proposed non-qualified expenses for 2025 and 2026.

3. Department of Commerce – Surrebuttal

The Department disclosed that Xcel did not accept its recommendation on non-qualified expenses and instead responded to the discovery request by stating that it stands by its initial request and will further address the Department’s recommendation at the Commission hearing on this matter.³³⁶

4. Administrative Law Judge Report

The ALJ found that the Department did not raise any specific concerns about the amount of non-qualified expenses or the effect they have on retaining talent, except citing past rate cases where the Commission disallowed recovery of non-qualified expenses. The ALJ also noted that there exists no clear method for Xcel to isolate and quantify or even explain the specific impact on retention of one small component of its compensation package on the customer benefits of retention. In addition, the ALJ observed that it would be cost prohibitive to invest in complex modelling to determine the impact of an amount of less than \$50,000 of non-qualified expense on customer benefits for talent retention at issue as in the instant case.³³⁷

The ALJ concluded that Xcel has demonstrated the reasonableness of its non-qualified expenses and therefore recommended the Commission approve allow Xcel’s request to recover non-qualified expense.³³⁸

ALJ Found³³⁹

644. The Department did not raise specific concerns about the amount of the non-qualified expenses or the effect they have on retaining talent.

645. The Company did not dispute the Commission’s past practice of denying recovery of non-qualified expenses, and instead argued that “the Commission is not bound by the decisions” in the cases cited by the Department and that “the fact that the Commission decided an issue one way in another case does not mean that the same decision would be reasonable in this case.”

646. To be sure, past Commission decisions are not binding precedent. That said, if the Commission reaches disparate decisions on substantially identical issues from one case

³³⁶ Ex. DOC-4 at 5 (Kehrwald Surrebuttal).

³³⁷ ALJ Report 641-645,650.

³³⁸ ALJ Report 651.

³³⁹ ALJ Report pp. 102-103, 644-651.

to the next, it could be found to be acting arbitrarily and capriciously. Facts and records vary from one case to case, and different decisions may be warranted on different records. It is, however, important for those distinctions to be principled and clearly articulated.

647. The most recent Commission order cited by the Department did indeed disallow recovery of non-qualified deferred compensation plans. In that proceeding, however, the Commission noted an “absence of any measurable ratepayer benefit” in reaching that determination.

648. It is, therefore, a bridge too far to draw from past Commission decisions a determination that non-qualified expenses are categorically inappropriate for ratepayer recovery.

649. The Company focuses on data to quantify the comparability of its compensation practices to peers. It then offers more generalized statements about the benefit to customers of attracting and retaining employees.

650. It is difficult to see what else Xcel could do to justify this request. There is no obvious way for the Company to isolate, quantify, and explain the specific impact on retention of one small component of its compensation package on the customer benefits of retention. And, for a rate case dispute on an issue worth less than \$50,000, investing in complex modeling to attempt to do so would quickly result in the ratemaking expense of the endeavor approaching, if not eclipsing, the amount in controversy.

651. On this record, the Company has demonstrated the reasonableness of its non-qualified expenses, and the Commission should approve recovery of those expenses.

5. Exception to the ALJ Report

a. The Department of Commerce

The Department disagreed with the ALJ recommendation that Xcel demonstrated the reasonableness of its non-qualified expenses, and the Commission should approve recovery of those expenses. According to the Department the ALJ believed the amount in controversy (\$50,000) was small and would not make sense to engage in complex modelling that would exceed this cost in itself and therefore there was no need for Xcel to provide additional data.

The Department retorted that the ALJ was correct about the amount in controversy as being small. However, the Department maintained that burden remained with Xcel to justify its request and to the extent the cost of justifying the request exceeds the value of the adjustment, Xcel should desist from asking to recover costs which have been denied in past rate cases. Therefore, Commission should not adopt ALJ’s recommendation but should reduce Xcel’s revenue requirement by \$44,662 in 2025 and \$48,394 in 2026.

The Department recommended that to implement its recommendation Commission should adopt the following revisions to the ALJ Report:

643. The Company also emphasized that it is important that Xcel’s compensation and benefits remain aligned with market standards so that the Company can attract, retain, and motivate employees needed to provide safe, reliable service to customers. The Company’s witness, however, admitted that its compensation study speaks only to what is reasonable in the market, not what is reasonable to recover from ratepayers.

644. The Department ~~did not raise specific concerns about the amount of the non-qualified expenses or the effect they have on retaining talent~~ questioned the necessity for these expenses considering that nonqualified benefits are only available to employees that are already highly compensated.

647. The most recent Commission order cited by the Department did indeed disallow recovery of non-qualified deferred compensation plans. In that proceeding, however, the Commission noted an “absence of any measurable ratepayer benefit” in reaching that determination. The Company has done nothing to change that analysis, and there remains no evidence of any measurable ratepayer benefit in the Company’s nonqualified expenses.

~~648. It is, therefore, a bridge too far to draw from past Commission decisions a determination that non-qualified expenses are categorically inappropriate for ratepayer recovery.~~

~~649~~648. The Company focuses on data to quantify the comparability of its compensation practices to peers. It then offers more generalized statements about the benefit to customers of attracting and retaining employees. This evidence is not sufficient to show that these benefits produce a measurable ratepayer benefit.

~~650. It is difficult to see what else Xcel could do to justify this request. There is no obvious way for the Company to isolate, quantify, and explain the specific impact on retention of one small component of its compensation package on the customer benefits of retention. And, for a rate case dispute on an issue worth less than \$50,000, investing in complex modeling to attempt to do so would quickly result in the ratemaking expense of the endeavor approaching, if not eclipsing, the amount in controversy.~~

~~651~~649. On this record, the Company has not demonstrated the reasonableness of its non-qualified expenses, and ~~the Commission should approve recovery of those expenses~~ they are disallowed.

6. Staff Analysis

Staff supports the ALJ findings that the Department did not raise any specific concerns about the amount of the non-qualified expenses or the effect they have on retaining talent. Staff also concurs with the ALJ recommendation that the Commission approve Xcel’s request to recover its non-qualified expenses as reasonable.

7. Decision Options

1068 Approve Xcel's request to recover the amount of its non-qualified expenses of \$44,662 in 2025 test year and \$48,394 for 2026 plan year. (Xcel, ALJ)

1069 Deny Xcel's request to recover the amount of its non-qualified expenses of \$44,662 in 2025 test year and \$48,394 for 2026 plan year. (Department)

U. Board of Directors Expense

1. Issue

Should Commission allow Xcel to recover board of Directors' fees and expenses of \$1,217,794 in 2025 and \$1,322,307 in 2026 from Minnesota electric ratepayers?

2. Introduction

Xcel offered no direct testimony on board of directors' fees and expenses but did provide rebuttal. In response to Department's Information Request IR 2114, Xcel disclosed that it proposed to recover \$1,217,794 in 2025 and \$1,322,307 in 2026 for board of director fees and expenses from Minnesota electric ratepayers.³⁴⁰

3. Department of Commerce – Direct

The Department noted in response to its IR 1012 that Xcel provide job descriptions for its board of directors, Xcel stated that the board of directors have no formal description. Additionally, Xcel stated thus:

In general, the Board of Directors is tasked with guiding Xcel Energy's long-term strategy and direction. Specifically, the Board of Directors has financial oversight responsibilities including approving budgets, monitoring financial performance, overseeing certain officer compensation, and ensuring proper accounting practices are maintained. The Board of Directors also is responsible for identifying, assessing, and mitigating risks to Xcel Energy's operations or financial well-being. And the Board of Director's is responsible for evaluating the performance of the CEO.³⁴¹

In view of the above statement, the Department questioned whether it is reasonable for Xcel to recover board compensation expenses from ratepayers since the Board's focus is primarily on

³⁴⁰ Ex. DOC – at 50 (Kehrwald Direct). See also Ex. DOC-____, MBK-D-30 at 6 (Kehrwald Direct) (Xcel's Response to DOC IR No. 2114, Department's annotated Attachment A). See column f.

³⁴¹ Ex. DOC-3, MBK-D-32 at 3, item D (Kehrwald Direct). Data retrieved from Guidelines on Corporate Governance, Xcel Energy Inc. (last visited Aug. 12, 2025). Available at: <https://xcelnew.my.salesforce.com/sfc/p/#1U0000011ttV/a/8b0000003hdk/vhtviJv57p6MB9za5zv1esTRjkJBobS4S4nPJ2dqxw>

the Company's performance, invariably the financial well-being (shareholder interest) of shareholders. The Department noted for the fact that board of directors approve their own pay creates a conflict of interest as they have an inherent financial interest for higher pay

Further the Department believed Xcel intentionally aligned the director compensation with shareholder interests,³⁴² as reflected on the Company's 2024 Proxy Statement. The Department held that this alignment was obvious from proxy statement quotes as reproduced below:

- Annual Equity Grant: Each director elected at the 2023 Annual Meeting of Shareholders received a grant of 2,610 shares of common stock or stock equivalent units representing approximately \$170,000 in value on the first business day following the annual meeting.³⁴³
- Stock Program: Our director compensation program aligns director and shareholder interests, and our Stock Program is designed to further that principle.... Directors who elect to defer cash compensation into stock equivalent units receive a premium of 20% of the compensation that was deferred as additional stock equivalent units.³⁴⁴
- Director Stock Ownership Guidelines: Independent directors are subject to stock ownership guidelines which establish a target level of ownership of Xcel Energy common stock or common stock equivalents of seven times their annual cash retainer.³⁴⁵

The Department concluded that although Xcel provided limited overview of the expectations and job duties of its board of directors, the Company failed to meet its burden to show the director cost to be reasonable and therefore recommended partial recovery. The Department noted that this recommendation is consistent with Commission precedent, which has historically limited recovery of investor relations expenses to a maximum of 50%. The Commission has allowed limited recovery because these expenses are not incurred solely for the benefit of ratepayers and therefore it's not reasonable for ratepayers to bear the entire costs.

Accordingly, the Department recommended recovery from ratepayers be limited to 50% of Minnesota jurisdictional amount of the board of director fees and expenses, of \$608,897 in 2025 test year and \$661,153 for 2026 plan year.³⁴⁶

³⁴² Ex. DOC-3, MBK-D-33 (Kehrwald Direct). Data retrieved from 2024 Notice of Annual Meeting and Proxy

Statement, Xcel Energy Inc. (last visited Aug. 12, 2025). Available at: <https://d18rn0p25nwr6d.cloudfront.net/CIK0000072903/e09a5fb5-2280-49a1-a999-2354da9bd946.pdf>. Department Attach includes excerpt regarding Director Compensation.

³⁴³ Id. at 1 (statement page 64).

³⁴⁴ Id.

³⁴⁵ Id. At 2 (Statement page 65).

³⁴⁶ Ex. DOC-3– at 55 Kehrwald Direct). Note Xcel's requested recovery amounts of \$1,217,794 *50% and \$1,322,307*50% = \$608.987 and \$661,153 for 2025 and 2026. See also 8 Ex. DOC-____, MBK-D-30 at 6

4. Xcel Energy – Rebuttal

Xcel witness Ly's rebuttal emphasized that Minn. Stat. § 302A.201, subd. 1. requires a Minnesota corporation like Xcel to have a board of directors. Xcel expressed disappointment that the Department was against compensating Board of Directors for the work that they perform by labelling such work as unnecessary to warrant expense recovery from ratepayers.

Xcel argued that the Department's focus on shareholder interest as being the only real task of the board of directors was misplaced because the board's oversight of Company performance and financial well-being do indeed directly benefit customers. In fact, it is the board compensation that supports the independent oversight needed to manage a complex, highly regulated utility. Also, the Directors ensure safe, reliable, and cost-effective service for customers, and oversee compliance with regulatory requirements, as well as make decisions that protect long term interest of the customer. Xcel also pointed to the report by Meridian Compensation Partners (Meridian), an independent compensation consultant, the Company retained to review its Board of Directors' compensation amounts and practices, who confirmed the amounts as being in line with the market.³⁴⁷

Xcel also disagreed with the Department's claim that board approve their own pay and at a higher level, which created a conflict of interest and stated this on the contrary that there exist safeguards to mitigate against this. Xcel buttressed this point thus:

As part of its 2024 review, the Governance, Compensation and Nominating (GCN) Committee reviewed the market information provided by Meridian. The GCN recommended to maintain (not increase) its current compensation levels and the Board approved. Fair and competitive compensation is necessary to attract and retain qualified directors who can provide effective oversight of utility operational function that directly protects customers by ensuring safe, reliable, and cost-effective service.³⁴⁸

Also, Xcel asserted that the Department did not cite Commission precedent or past decisions to support the recommendation to deny recovery of board of director expense, except pointing to past Commission decisions limiting to 50% the recovery of investor relations expense that provide value to shareholders and customers.

Accordingly, Xcel held that Department's reliance on prior Commission decisions limiting recovery of investor relations expenses is not a valid basis for recommending disallowing recovery of board compensation since investor relation expense and board of director expense serve different purposes.

(Kehrwald Direct) (Xcel's Response to DOC IR No. 2114, Department's annotated Attachment A). See column g.

³⁴⁷ Ex. Xcel-63 at 41 (Ly Rebuttal)

³⁴⁸ Ex. Xcel -65 at 42-43 (Ly Rebuttal).

5. Department of Commerce – Surrebuttal

The Department retorted that it did not state that the board of directors provides no benefit to customers. Rather, the Department argued that the Board’s financial interests are aligned with shareholders’ interests, and that directors set their own compensation levels, which poses a risk to ratepayers’ interests.

The Department argued that the Commission has previously applied the 50% recovery limit approach in cases involving board director costs,³⁴⁹ investor relations expense,³⁵⁰ Chamber of Commerce dues,³⁵¹ community events,³⁵² and economic development costs.³⁵³ Therefore, the Department held its initial recommendation without change.

6. Administrative Law Judge Report

The ALJ recommended the Commission adopt the Department’s proposal to disallow 50% of the requested level of Board of Director’s compensation in both the 2025 Test Year and 2026 Plan Year.³⁵⁴

The ALJ Found:

658. The issues raised here are similar to those addressed in Xcel’s request for top ten executive compensation. As with that issue, Xcel presents evidence that its requested amount is in line with peers and provides a benefit in the form of retaining and attracting qualified individuals. That is not, however, the crux of the dispute.

659. As with top-ten executive compensation, the chief concern raised by the Department is not whether, as a business matter, a Board of Directors should be paid or that these expenses are not in-line with industry peers. Once again, the concern is whether customers or shareholders should bear the costs.

660. It is not necessary to repeat the discussion about the top-ten executive compensation issue. The Department’s concern is perhaps more starkly presented for the Board of Directors, as the expectation that the Board advance shareholder interests is explicitly reflected in the proxy statement. For the same reasons that Xcel did not meet its burden to show the reasonableness of its requested amount of top ten executive compensation, it has not met its burden here.

661. While the Company states that the Commission has approved rate recovery for Board of Directors compensation in its entirety in the past, it points to no specific

³⁴⁹ Ex. DOC – 4 at 66-67 (Kehrwald Surrebuttal).

³⁵⁰ *Id.*

³⁵¹ *Id.*

³⁵² *Id.*

³⁵³ *Id.*

³⁵⁴ ALJ Report 654-662.

Commission decisions where the issues raised by the Department have been considered.

662. The Commission should adopt the Department's proposal to disallow 50 percent of the requested level of Board of Director's compensation in both the 2025 Test Year and 2026 Plan Year.

7. Exceptions to the ALJ Report

a. Xcel Energy

Xcel disagreed with the ALJ's recommendation to disallow 50 percent of the requested level of board of director's fees and expenses in both the 2025 Test Year and 2026 Plan Year. Xcel stated that the ALJ's notion that the board of directors usually advance shareholder interest failed to recognize that the Board's focus on the Company's performance and financial well-being directly benefits customers. Additionally, Xcel noted that the ALJ suggested that Board of Directors expenses should be allocated between shareholders and customers based on a divergence of interests between the two groups but noted however the distinction between shareholder and customer interests is not a bright line and in fact, those interests are not mutually exclusive.

Xcel argued that the governance, risk oversight, financial stewardship, and long-term planning responsibilities performed by the board of directors help ensure that the utility safely, reliably, and prudently serves customers at reasonable cost. Also, Xcel argued that though shareholders may benefit from effective Board oversight, those effects in no way diminish the substantial benefits that inure to customers, neither do they provide a basis for allocating 50 percent of the Company's board of directors expenses as shareholder-only costs. Additionally, the Commission has historically approved the Company's request for Board of Directors expense in its entirety. Therefore, Xcel continued to request it be allowed to recover in full its board of Director's expenses.

8. Staff Analysis

Xcel claimed that the Commission has previously allowed rate recovery of all of Board of Directors' costs and expenses but failed to show a specific case where the Commission considered and decided on the issues raised by the Department. Whereas the Department provided cases where the Commission decided rate recovery limit of the 50% in cases involving board director costs, investor relations expense, Chamber of Commerce dues, community events, and economic development costs.

Staff supports the ALJ Findings and recommendation that the Commission adopt the proposal to disallow 50% of the requested level of Board of Director's compensation in both the 2025 Test Year and 2026 Plan Year.

9. Decision Options

1070 Grant Xcel's request to recover the full amount of its board of directors' expenses of \$1.2 million in 2025 test year and \$1.3 million in 2026 plan year. (Xcel)

1071 Allow Xcel to recover its proposed board of directors' expenses capped at 50% by reducing amount of recovery in 2025 test year by \$606,897 and 2026 plan year by \$661,153. (Department, ALJ)

V. Outside Services (FERC Account 923)

1. Issue

Should the Commission approve Xcel's requested outside services O&M expenses in the amount of \$26,843,453 and \$25,881,789 for test years 2025-2026, respectively?

2. Department of Commerce – Direct

In its direct testimonies, the Department's witness stated that the Company requested O&M outside services expenses in the rate case in the amount of \$26,843,453 and \$25,881,789 for the 2025 and 2026 test years, respectively.³⁵⁵ The Department said that Xcel did not provide detailed support for its outside services O&M expenses.

The Department reviewed the amount of outside services O&M expense that the Company recovered in its previous rate case which was between \$19.5 million and \$21.6 million annually. In addition, the Department noted that the actual expenses from 2022–2024 were consistently lower than approved levels, totaling \$56.8 million in actual costs versus \$62.5 million recovered. This indicates the Company previously overestimated its outside services needs by about \$5.6 million as shown in the below table.³⁵⁶

	2022	2023	2024	Total
Actual Outside Services O&M Expense	\$18.1	\$17.8	\$21.0	\$56.9
Test Year Outside Services O&M Expense	\$19.5	\$21.6	\$21.4	\$62.5
Difference (A – TY)	(\$1.4)	(\$3.8)	(\$0.4)	(\$5.6)

The Department said Xcel did explain that lower actual costs were mainly due to outside legal expenses not materializing as expected. For the higher 2025–2026 forecasts, the Company cited

³⁵⁵ DOC, Golden Direct, at 14

³⁵⁶ *Id.*, at 15-16

anticipated increases in legal services, technology services, enterprise security, and wildfire mitigation costs. However, the Department noted that the proposed 2025 and 2026 expenses are significantly above the 2022–2024 actual average of \$18.9 million, about 42% higher in 2025 and 37% higher in 2026 and argued the Company did not adequately justify these increases.

Therefore, the Department recommended reducing the proposed outside services O&M expenses by using 2024 actual costs plus a 7.5% annual inflation adjustment. This would reduce expenses by approximately \$4.3 million in 2025 and \$1.7 million in 2026. In other words, the Department recommended adjusted outside services O&M expenses of \$22.5 million for 2025 and \$24.2 million for 2026.

The Department based its recommendation on Xcel’s history of overestimating outside services costs, insufficient support for the projected increases, inconsistent explanations regarding legal expenses, and 2025 spending trends that remain below both projected and 2024 actual levels.

3. Xcel Energy – Rebuttal

In its rebuttal testimonies, the Company first explained about the FERC Account 923, known as “Outside Services Employed,” tracks O&M expenses for outside professional services such as consultants, engineers, accountants, attorneys, and technology vendors.³⁵⁷

Xcel responded to the Department analysis that focusing on a single FERC account is misleading because the Company does not budget by FERC account. Instead, budgets are developed across business areas, and FERC Account 923 serves as a catch-all account that includes costs from many Departments. Xcel argued that comparing actual and approved amounts for only one account ignores under- and over-recoveries in other accounts and does not reflect the overall reasonableness of the Company’s budgeting process.³⁵⁸

The Company acknowledged that actual FERC Account 923 expenses from 2022–2024 were lower than approved amounts, partly due to efforts to reduce vendor spending, lower technology consulting expenses, reorganizations, and reduced outside legal costs. However, Xcel disagreed with the Department’s conclusion that the Company over-collected mainly due to lower outside legal costs based on Company’s response to Information Request No. 2112 Part D. Xcel argued that the Department overstated the role of legal expenses and ignored broader operational needs and budget drivers.³⁵⁹

For 2025 and 2026, the Company argued that the projected increases are driven by higher expected spending for Technology Services, Enterprise Security Services, and wildfire mitigation programs, all of which require additional outside professional services. Therefore, the Company disputed the Department’s recommendation capping FERC Account 923 expenses at

³⁵⁷ Xcel, Robinson Rebuttal, at 18

³⁵⁸ *Id.*, at 19

³⁵⁹ *Id.*, at 21-22

approximately \$22.5 million and \$24.2 million, respectively, based on 2024 actual costs plus 7.5% annual inflation.

The Company maintained that its overall O&M forecasts reasonably reflect anticipated costs and cited a prior Minnesota Power rate case where a similar Department proposal to cap FERC Account 923 expenses was rejected by both the ALJ and the Commission.³⁶⁰

In conclusion, Xcel stated that the Department's focus on a single FERC account was inappropriate and that the Company had provided sufficient support for its proposed outside services expenses.

4. Department of Commerce – Surrebuttal

In the surrebuttal testimonies, the Department witness argued that although Xcel explained lower outside services expenses in prior years as being caused by savings in several areas, including lower outside legal and technology service costs, company efforts to reduce spending on outside vendors, and organizational restructuring. However, the Company did not clearly explain what specifically is causing the projected increases in future costs or how much each business area contributes to those increases.

The Department disputed Xcel's claim that the Department's conclusion on FERC Account 923 spending was related to outside legal services. The Department clarified that its conclusion was based on the Company had lower-than-budgeted costs in 2022 and 2023 partly to reduced legal expenses, while also acknowledging projected increases tied to technology services, enterprise security services, and wildfire mitigation.

In addition, The Department noted that actual 2025 spending so far appears much lower than the Company projected. The 1st -quarter 2025 expenses totaled about \$4.7 million, which annualizes to approximately \$18.9 million. This is significantly below the Company's proposed 2025 budget of \$26.8 million, below 2024 actual expenses, and also below Golden's recommended level of \$22.5 million.³⁶¹

The Department also discussed the Minnesota Power 2021 rate case which the ALJ and Commission in that case did not reject the idea of reviewing expenses by FERC account; rather, they found the utility's forecasting methods more convincing based on the specific facts of that case. Therefore, the case does not support Xcel's position here. The Department noted that even in that case, the Commission found FERC account-level expenses can be reasonable for ratemaking, meaning they can also be evaluated to be too high.³⁶²

The Department maintained its recommendation to set outside services expenses at 2024 actual levels plus 7.5% inflation, resulting in \$22.5 million for 2025 and \$24.2 million for 2026.

³⁶⁰ *Id.*, at 24

³⁶¹ DOC, Golden Surrebuttal, at 17

³⁶² *Id.*, at 18

5. ALJ Report

The ALJ found that in the 1st Quarter of 2025, the Company's outside services expenses showing annualized spending well below both Xcel's proposal and the Department's recommendation. This data is strongly supported the Department's concerns. The ALJ concluded that Xcel relied too heavily on generalized explanations and did not adequately justify the higher forecast. As a result, the ALJ determined that Xcel failed to prove its requested recovery was just and reasonable and recommended adopting the Department's proposal for outside services expenses.

The ALJ noted the following findings:

671. The key drivers for the increased anticipated level of expense in FERC Account 923 for the test year and plan year are overall O&M increases related to Technology Services, Enterprise Security Services, and the initiation of the wildfire mitigation program. The Company provided testimony supporting each of these areas of increased O&M.

672. The Commission faced a similar issue related to FERC Account 923 in Minnesota Power's 2021 rate case, rejecting a Department proposal to use historical data in place of the utility's forces and adopting a recommendation that found the Department's proposal would fail to recognize known impacts to the Company's spending.

673. This case has many similarities to the 2021 Minnesota Power rate case. The Department advanced a similar argument and the utility offered a similar response. In this proceeding, Xcel specifically pointed to Technology Services, Enterprise Security Services, and a wildfire mitigation program as drivers of the increase.

674. In this proceeding, however, actual data provides strong support for the Department's position. Specifically, first quarter data for 2025 shows the Company's actual spending in FERC 923 at an annualized level of \$18.9 million. This figure is not only lower than Xcel's \$26.8 million proposal and the Department's \$22.5 million recommendation, but even the 2024 actual figure of \$20.96 million that the Department proposes to use as the baseline for Xcel's increase.

675. In the face of this actual data supporting the Department's proposal, the Company fails to meet its burden by offering generalized statements about the nature of its budgeting process.

676. Xcel's point that the catch-all nature of FERC Account 923 makes it an imperfect vehicle for this type of analysis is well taken. That said, it is also difficult to fault the Department for selecting an accounting system the Company is legally obligated to use as the basis for its analysis.

677. If expected variances between accounts alone explained the trends observed by the Department, one would expect to see those variances net out over time. Instead, the Department has shown that spending for outside services has come in under Xcel's expected levels in 2022, 2023, 2024, and, based on the most current available data, is on pace to do so again in 2025.

678. Because the Department has adequately supported its concerns with respect to spending on outside services, and the Company has not sufficiently addressed them, Xcel has not met its burden to prove that its requested level of rate recovery for outside services would lead to just and reasonable rates.

679. The Commission should adopt the Department's proposal for outside services

6. Exceptions to ALJ Report

The Company disagreed with ALJ's recommendation which adopted the Department's proposal to reduce expenses recorded in FERC Account 923. The Company acknowledged that Account 923, a broad "catch-all" account for outside services, showed increased requested recovery and past over-recovery from 2022–2024. However, the Company argues that focusing on a single FERC account is misleading because O&M expenses are managed across the utility as a whole, with higher and lower spending balancing out among accounts over time.

The Company also argues that the Department improperly used the FERC accounting structure as a budgeting tool, even though the Company does not budget by individual FERC accounts. In addition, the Company contended that relying on first-quarter 2025 data is unreliable because expenses in Account 923 can vary significantly throughout the year depending on project timing.

Finally, the Company compares this case to Minnesota Power's 2021 rate case, where similar Account 923 expenses were accepted after the utility demonstrated that its budget process carefully considered system needs and known impacts. Xcel argues it has provided similar support here and therefore the ALJ should reject the Department's proposed reduction to Account 923 O&M expenses.

7. Staff Analysis

Staff acknowledges that the Company treats FERC Account 923 as a "catch-all" account for outside services; however, the Company still bears the burden of proof to justify the total dollars requested with substantial increase under this account. In the Department's IR #2112, it requested that Xcel provide approved test year budget amounts and actual expenditures for FERC Account 923 for the years 2022 through 2024. The Company provided the following information:

Northern States Power Company
State of Minnesota Electric Jurisdiction

Docket No. E002/GR-24-320
DOC IR No. 2112
Attachment A - Page 1 of 1

FERC 923 - A&G Outside Services O&M Expense

	NSPM Total Company - Electric	Minnesota Electric Jurisdiction	Minnesota Electric Jurisdiction Deviation
2022 Test Year	22,399,764	19,514,552	
2023 Plan Year	24,489,467	21,583,102	
2024 Plan Year	24,286,024	21,363,408	
2022 Actual	20,731,397	18,105,490	-7.22%
2023 Actual	20,377,285	17,760,854	-17.71%
2024 Actual	24,134,005	20,962,983	-1.87%
2025 Actual Q1	5,459,930	4,731,416	
2025 Test Year	30,807,400	26,843,453	28.05%
2026 Plan Year	29,702,684	25,881,789	23.46%

Based on the data above, the Company has consistently overbudgeted expenses under this outside services account for the past three years. While Staff agrees with the Company that Q1 2025 data alone is insufficient to capture full-year project costs, however, the Company's history of over-recovery in this expense account from 2022 through 2024 makes its proposed 28% budget increase for test year 2025 and 23% increase for test year 2026 unreasonable. Therefore, the Commission may wish to apply the established precedent of setting the budget based on a three-year historical average of actual spending, adjusted by the Department's recommended inflation factor of 7.5%. Applying a three-year historical average of actual expenditures from 2022 through 2024, escalated by 7.5%, would yield a more reasonable budget amount. This approach is also consistent with Commission precedent and past practice.

8. Decision Options

1072 Allow Xcel to recover the Outside Services O&M expenses in the amount of \$26.8 million and \$25.9 million for test years 2025-2026, respectively. (Xcel Energy)

1073 Allow Xcel to recover the Outside Services O&M expenses in the amount of \$22.5 million and \$24.2 million for test years 2025-2026, respectively. (Department, ALJ)

W. Organizational Dues (EEI, Chamber of Commerce)

1. Issue

Should the Commission allow Xcel Energy to recover dues from Edison Electric Institute (EEI) and Chamber of Commerce?

2. Summary

Organizational dues can be recovered if the Company shows a benefit to ratepayers. The concern is if dues are used to support lobbying effects or the benefits are shown to go to shareholders over ratepayers. Dues have been limited if the Company has not shown ratepayer benefits.

3. Xcel Energy - Direct

Xcel Energy has included 100% of Chamber of Commerce membership dues in both 2025 Test Year and 2026 Plan Year. The Chamber of Commerce provides a link between the Company and the communities it serves. In this rate case the Company has removed both the American Gas Association (AGA) and Minnesota Utility Investors (MUI) dues as they are not beneficial to ratepayers in this rate case. The Minnesota electric jurisdiction is budgeted amount of \$221,936 annually for Chamber of Commerce.

4. Office of Attorney General - Direct

The OAG had concerns about dues of \$5.9 Million in the 2025 Test Year and \$5.6 million in the 2026 Plan Year. The Company provided a budgeted amount and presented it as a single total without breaking it out by organization or jurisdiction. The OAG stated that Company has removed the lobbying portion of dues, a methodology that the Commission approved in the Company's previous rate case.

The OAG contended that the Company has not provided sufficient evidence to establish that the non-lobbying portion of EEI dues benefits Minnesota ratepayers or was necessary to provide electric service. The OAG recommended that the Company provide at a minimum, a listing of all EEI presentations, trainings, and conferences attended by employees, along with an explanation of ratepayer benefits for each. The OAG also noted if the Company cannot provide this level of detail, the EEI dues should be disallowed in this rate case.

The OAG opposed the Company's request to recover 100% of Chamber of Commerce dues, as noted in Docket No. E-002/GR-21-630 the Company was limited to 50% recovery as the record showed that ratepayers and shareholders benefited equally. When both parties benefit, the Commission has determined that such costs could be split 50/50. This adjustment would result in \$110,968 being removed from the Test Year and Plan Year.

5. Xcel Energy – Rebuttal

The Company has memberships in several utility associations, which have been shown to be useful to the Company and by extension its customers by providing industry data, strategic

business intelligence, training, conferences, and many other resources. With the information received from utility associations, it helps the Company provide safe, reliable, and cost-effective service to its customers.

The Company reconfirmed it has removed all lobby related expense for EEI dues as required by the Commission using FERC account 426. The Company's actual EEI dues for 2024 were \$2.4 million. The 2024 EEI invoice states that 16% of the Regular Activities amount and 27% of the Industry Issues amount are attributable to lobbying. The contribution to the Edison Foundation was also accounted for separately, as a charitable donation.

Xcel reaffirmed they have met its burden to have EEI dues recovered as filed. OAG's request to have itemized benefit quantification for every EEI activity is impractical given the breadth and variety of EEI's offerings and exceeds what the Commission has required in past rate cases.

Xcel argued that the 50% recover cap on Chamber of Commerce dues is unreasonable. The dues for the Chamber of Commerce membership are strengthening relationships with local communities, providing local information about customer needs and signaling community commitment, benefits that flow through to customers through improved service. The Company is a member of 67 local and regional Chambers across the Twin Cities and Central Minnesota, as well as the Minnesota Chamber of Commerce. Membership in the Chamber is an effective means for the Company to increase its customer base.

6. Office of Attorney General – Surrebuttal

OAG continued to recommend denying EEI dues recovery. The OAG challenged EEI invoices might not have captured all the lobbying-related activities with four recent developments 1) Kentucky Public Service Commission disallowance of EEI dues, 2) FERC proposing industry association dues be recorded under presumptively non-recoverable account to keep the burden on the utility, 3) US House Energy and Commerce Committee investigation into the Utility Air Regulatory Group (a group EEI is associated with) that had very little disclosure about lobbying activities, and 4) California PUC found greater portion of EEI's activities attributable to lobbying and political activities. OAG asserted that Xcel has not substantiated the ratepayer benefit as requested. OAG continued to recommend that the Commission deny recovery of EEI dues included in 2025 Test Year and 2026 Plan Year.

OAG also continued to recommend Chamber of Commerce dues to 50% recovery, consistent with Commission's prior order. The Company's rebuttal argument that membership is primary for community engagement rather than economic development was unpersuasive to the OAG.

7. ALJ Report

The ALJ stated the Commission must not permit recovery of a utility's travel, entertainment, and related employee expenses, including dues and expenses for memberships in organizations or clubs if the Commission finds expenses are unreasonable or unnecessary for provision of

utility services.³⁶³ The Commission has a clear history of allowing utilities the recover EEI dues and nothing in the record in the record suggested that EEI dues in this proceeding are used for a fundamentally different purpose than dues previously approved. The ALJ found that Xcel Energy has not shown that the Commission's limiting recovery of Chamber of Commerce dues to being unreasonable. ALJ Found:

690. The Commission should allow the Company to recover EEI dues in its requested amount.

700. The Commission should adopt the OAG's recommendation and limit recovery of chamber of commerce dues to 50 percent of Xcel's requested levels.

8. Staff Analysis

Staff agrees that Chamber of Commerce due should be recovered at 50% as the shareholders share in benefits from membership. Xcel should recover EEI dues as stated because Xcel has shown that the dues related to lobbying have been removed and the Commission has allowed recovery of EEI dues in earlier rate cases.

9. Decision Options

1074 Allow Xcel Energy to recover dues of approximately \$677,000 annually for EEI. (Xcel Energy, ALJ)

1075 Allow Xcel Energy to recover dues of approximately \$222,000 for Chamber of Commerce. (Xcel Energy)

1076 Allow Xcel Energy to recover Chamber of Commerce at 50% (approximately \$111,000) of total dues. (OAG, ALJ)

1077 Reject Xcel Energy's request to recover EEI dues. (OAG).

X. Employee Awards and Gifts

1. Issue

Should the Commission approve Xcel's proposed Employee Awards and Gifts expenses?

2. Xcel Energy – Direct

Xcel's Xcelebrate program recognizes excellent work performance and accomplishments, years of contribution at five-year intervals, and retirement. The Company's recognition programs include a years-of-contribution program, a corporate recognition program, and the Spot-On Award program.

³⁶³ Minn. Stat. § 216B.16, subd. 17.

Additionally, the Company indicated safety-related gifts and other incentives such as successful and safe completion of a large project or reaching a major milestone without an injury. The associated expenses are included in the Employee Expense Report Schedule 7.

The Company argued that safety recognition is a necessary and reasonable expense to provide utility service, and that employee recognition and appreciation help foster a collegial working environment essential to achieving a high level of productivity.

Xcel indicated its total reward program expenses for the Minnesota Jurisdiction are as follows in Table 39.

Table 39 – Xcel’s Recognition Expense O&M³⁶⁴

Year	Recognition Total
2023 Actual	\$1,523,119
2024 Forecast	\$1,269,295
2025 Budget	\$997,023
2026 Budget	\$1,034,807

For Xcelebrate expenses, Xcel proposed \$0.7 million for 2025, and \$0.8 million for 2026.

3. OAG – Direct

The OAG indicated that Xcel’s actual costs for recognition awards in 2023 are \$1.1 million, of which \$1.0 million are for gifts and \$0.04 million are for safety recognition.³⁶⁵

The OAG argued that Xcel had not demonstrated that employee award and gift expenses are reasonable and necessary for the provision of utility service, and cited Minnesota Statute 216B.16 subdivision 17(a).³⁶⁶

Additionally, the OAG noted Minnesota Power’s 2021 rate case, in which the Commission disallowed certain service and retirement awards,³⁶⁷ and Otter Tail’s 2016 rate case, in which the Commission disallowed certain employee gift and recognition expenses.³⁶⁸

³⁶⁴ Ex. Xcel-64 at 29. (Ly Direct)

³⁶⁵ Ex. Xcel-9, Initial Filing, Volume 5, Budget Documentation at Schedule 7 – Gifts.

³⁶⁶ See [Minn. Stat. § 216B.16, subd. 17\(a\)](#).

³⁶⁷ *In the Matter of the Application of Minnesota Power for Authority to Increase Rates for Electric Service in Minnesota*, Docket No. E-015/GR-21-335, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 30. (Feb. 28, 2023)

³⁶⁸ *In the Matter of the Application of Otter Tail Power Company for Authority to Increase Rates for Electric Service in Minnesota*, Docket No. E-017/GR-15-1033, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 47-48. (May 1, 2017)

The OAG recommended that Xcel remove \$1.0 million in employee awards and gifts expense from both 2025 and 2026, which reflects the 2023 recognition expenses that were not safety-related.

4. Xcel Energy – Rebuttal

Xcel argued that recognition programs awards are related to well-established practices to recognize employees who are serving customers, and the state of Minnesota offers a similar recognition and service award program.

Xcel indicated that because 2025 and 2026 budgeted amounts are less than 2023 actual expenses, it would be unreasonable to use 2023 as the adjustment amount. Instead, each category of Xcelebrate expenses should be considered separately, with the proportional percentage applied to the 2025 and 2026 budget amounts. The relevant Xcelebrate amounts and percentages are noted in Table 40 below.

Table 40 - Xcelebrate Program Expenses in EER Schedule 7 by Category:³⁶⁹

Expense Type	2023 Expense	% of Total 2023	Potential Adjustment 2025	Potential Adjustment 2026
Performance	\$930,097	90.55%	\$671,013	\$699,331
Years of Contributions	\$71,045	6.92%	\$51,255	\$53,418
Per Seat Fee	\$20,619	2.01%	\$14,876	\$15,503
Safety	\$5,410	0.53%	\$3,903	\$4,068
Total	\$1,027,171	100.00%	\$741,047	\$772,320

Xcel argued that it is reasonable to recover Xcelebrate expenses, as 1) the per seat fee is an expense for hosting the Xcelebrate platform, 2) the Commission has had a long-standing policy of supporting employee awards that promote safety, and 3) it is reasonable for the Company to reward excellent performance and years of contribution.

Additionally, Xcel noted that its recognition program had not changed, and its associated expenses were approved without issue in the 2021 rate case.

5. OAG – Surrebuttal

The OAG argued that Xcel did not provide analysis showing that ratepayers have benefited from reduced costs associated with employee hiring, trainings, or nominal awards.

As a result, the OAG recommend a disallowance of \$0.7 million in 2025, and \$0.8 million in 2026, based on Xcel’s updated figures in rebuttal, to be consistent with past practice “that the

³⁶⁹ Ex. Xcel-28 at 16. (Robinson Rebuttal)

proposed employee gift and recognition expenses are not reasonable and necessary for the provision of utility services.”³⁷⁰

6. Initial Briefs

Xcel indicated that there is no basis for the OAG’s expectation that every expense has to be supported by some sort of analysis.

Xcel argued that in Minnesota Power’s 2021 rate case, the Commission distinguished service-time recognition awards, which were denied cost recovery, from performance based rewards.³⁷¹

Additionally, In Otter Tail Power’s rate case, the applicant was denied cost recovery for expenses that included employee life events and holiday gifts.³⁷² In contrast, Xcel contended it segregated employee life events and holiday gifts, so they were not included for cost recovery.

7. Reply Briefs

The OAG argued that Xcel bears the burden of proof in rate cases,³⁷³ and that Xcel did not show how Xcelebrate relates to the provision of utility service beyond conclusory claims, or how the program supports employee retention or benefits ratepayers.

8. ALJ Report

The ALJ noted the following in his findings:

711. In the 2021 Minnesota Power rate case, the Commission excluded gift cards given to employees as awards for certain periods of service, noting that that program was distinguishable from “accomplishing goals or achieving benchmarks that specifically increase product or safety” and “failed to show how service-time-recognition awards encourage or promote similar results.”³⁷⁴ Here, the service-

³⁷⁰ *In the Matter of the Application of Otter Tail Power Company for Authority to Increase Rates for Electric Service in Minnesota*, Docket No. E-017/GR-15-1033, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 47-48. (May 1, 2017)

³⁷¹ *In the Matter of the Application of Minnesota Power for Authority to Increase Rates for Electric Service in Minnesota*, Docket No. E-015/GR-21-335, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 30. (Feb. 28, 2023) (“This type of bonus is distinguishable from bonuses that employees receive for accomplishing goals or achieving benchmarks that specifically increase productivity or safety.”)

³⁷² *In the Matter of the Application of Otter Tail Power Company for Authority to Increase Rates for Electric Service in Minnesota*, Docket No. E-017/GR-15-1033, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 47-48. (May 1, 2017)

³⁷³ Minn. Stat. § 216B.16, subd. 4.

³⁷⁴ *In the Matter of the Application of Minnesota Power for Authority to Increase Rates for Electric Service in Minnesota*, Docket No. E-015/GR-21-335, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 30. (February 28, 2023)

time awards are only one portion of the program that is largely driven by employee performance. Further, Xcel has built a record on the customer benefits of employee retention that satisfies its burden on this issue.³⁷⁵

712. In the 2015 Otter Tail Power Company rate case, the Commission excluded from recovery a much broader employee gift program that included gifts for retirements, deaths, holidays, and other special events, determining that such gifts were “not reasonable and necessary for the provision of utility services.”³⁷⁶ Such gifts are unrelated to performance and present no obvious customer benefit. Xcel has shown that, in this proceeding, it is not seeking recovery of these types of gifts.

713. The Company has met its burden to prove that the portion of its employee gift program it seeks to recover is reasonable and necessary for the provision of utility service.

714. The Commission should allow Xcel to recover its requested amount for the Xcelebrate program.

9. Exceptions to ALJ Report

The OAG continued to argue that Xcel had not met its burden of proof beyond conclusory statements about the benefits of the Xcelebrate awards for performance and years of service, and the related administrative fees.

Additionally, the OAG noted that the Commission previously denied recovery for Otter Tail’s program expenses that “recognize employee achievement,”³⁷⁷ which are similar to Xcel’s claims regarding its Xcelebrate program.³⁷⁸

The OAG proposed the following modifications to the ALJ’s findings.

708. The Company responds that the recognition program provided through Xcelebrate helps the Company foster a culture where employees feel valued and

³⁷⁵ As these employee awards are awarded to employees who are not executives, the concerns discussed earlier in this Report about distinguishing between rewarding performance that primarily benefits shareholders rather than customers are not present on this issue. The Company’s arguments about the benefit to customers in attracting and retaining employees are thus more persuasive on this issue.

³⁷⁶ *In the Matter of the Application of Otter Tail Power Company for Authority to Increase Rates for Electric Service in Minnesota*, Docket No. E-017/GR-15-1033, FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER at 47-48. (May 1, 2017)

³⁷⁷ *In the Matter of the Application of Otter Tail Power Company for Authority to Increase Rates for Electric Service in Minnesota*, Docket No. E-017/GR-15-1033, Findings of Fact, Conclusions, and Order at 47 (May 1, 2017).

³⁷⁸ Ex. Xcel-26 at 107 (Robinson Direct).

appreciated, which drives engagement, productivity, and retention. Xcel claims that customers benefit from the Company's retention of knowledgeable, experienced employees that can complete tasks efficiently and by having reduced costs associated with hiring and training new employees. However, there is no evidence in the record, beyond Xcel's conclusory assertions, to show that the program is effective at achieving these goals or that ratepayers benefit from these awards, despite the OAG highlighting this gap in the record for Xcel. Xcel has not shown how the awards support employee retention or how spending money on awards assists in reducing costs with hiring or training new employees. It is reasonable for the Company to reward high performance and years of contribution, and these awards are a key part of the Company's overall approach to employee compensation.

709. Xcel asserts that tThe performance-based awards reinforce "desirable work efforts and contributions in the moment that directly support customer satisfaction and business continuity." Xcel also claims that tThe years-of-contribution awards recognize long-term employees who bring valuable expertise and knowledge to the Company, and the awards instill both employee pride and renewed loyalty to their work serving customers. The "per-seat fee" component of the Xcelebrate program is an O&M expense and no amount in that category is received by employees. But Xcel provides no evidence or analysis to support these claimed benefits.

710. The OAG also argued that its recommendation is consistent with prior Commission decisions involving employee recognition programs at Minnesota Power and Otter Tail Power. Both cases relied on by the OAG are instructive. are distinguishable from this proceeding.

711. In the 2021 Minnesota Power rate case, the Commission excluded gift cards given to employees as awards for certain periods of service, noting that that program was distinguishable from "accomplishing goals or achieving benchmarks that specifically increase product or safety" and "failed to show how service-time-recognition awards encourage or promote similar results. Here, the service time awards are only one portion of the program that is largely Xcelebrate awards are in part driven by employee performance, but the OAG is not challenging safety-related performance awards, and Xcel has failed to establish that the remaining performance awards have ratepayer benefits. Also included in the Xcelebrate program are awards for "years of contribution at five-year intervals," which appear analogous to "service-time recognition awards," of the type disallowed in the 2021 Minnesota Power case. Xcel has not shown how awards for length of service encourage or promote benefits to customers. Further, Xcel has built a record on the customer benefits of employee retention that satisfies its burden on this issue.

712. In the 2015 Otter Tail Power Company rate case, the Commission excluded from recovery a much broader employee gift program that included gifts for achievement, retirements, deaths, holidays, and other special events,

determining that such gifts were “not reasonable and necessary for the provision of utility services.” ~~Such gifts are unrelated to performance and present no obvious customer benefit. Xcel has shown that, in this proceeding, it is not seeking recovery of these types of gifts. The achievement-related awards that the Commission denied recovery for in Otter Tail are similar to the performance-related awards at issue here for which Xcel has failed to establish a ratepayer benefit. Moreover, Xcel’s years-of-service awards are like the employee-recognition gifts disallowed in Otter Tail and similarly lack any ratepayer benefit.~~

713. The Company has not met its burden to prove that the portion of its employee gift program it seeks to recover is reasonable and necessary for the provision of utility service.

714. The Commission should disallow Xcel to recover its requested amount for the Xcelebrate program. \$737,144 for non-safety awards and administrative fees in the 2025 test year and \$768,252 for non-safety awards and administrative fees in the 2026 plan year.

10. Staff Analysis

Staff notes that in the Commission’s 2015 Otter Tail rate case order, Otter Tail explained its Employee Expense – Gifts as “expenses that recognize employee achievement, acknowledge life events such as retirements and deaths, and mark holidays and other special events.” In that proceeding, the Commission found that the proposed employee gift and recognition expenses are not reasonable and necessary for the provision of utility services, and denied recovery for those items.³⁷⁹

11. Decision Options

1078 Approve Xcel’s request to recover non-safety awards and administrative expenses of \$0.7 million in 2025, and \$0.8 million in 2026. (Xcel, ALJ)

1079 Remove all non-safety awards and administrative expenses in 2025 and 2026. (OAG)

Y. Investor Relation Expenses

1. Issue

Should the Commission allow Xcel to recover its investor relations expenses through the MYRP?

³⁷⁹ *In the Matter of the Application of Otter Tail Power Company for Authority to Increase Rates for Electric Service in Minnesota*, Docket No. E-017/GR-15-1033, FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER at 47-48. (May 1, 2017)

2. Xcel Energy – Direct

In its direct testimony, the Company stated that it expects to incur investor relations expenses in both 2025 and 2026 to maintain communication with credit rating agencies, support investor demand for its long-term debt securities, and manage shareholder and fixed-income investor services. The Company argued these activities help NSPM secure favorable financing costs and support its equity program, which it says is important for maintaining the financial stability of the corporate family.³⁸⁰

The Company also stated that these were not discretionary expenses because publicly traded companies are required to conduct activities such as maintaining a NASDAQ stock listing, providing stock transfer and shareholder account services, and holding annual shareholder meetings. NSPM contended these costs are necessary, reasonable, and properly included in electric service costs because they support cost-effective utility operations rather than providing benefits solely to shareholders. The Company stated that it is no longer proposing a 50 percent reduction to investor relations expenses and is instead seeking recovery of 100 percent of those costs in rates.³⁸¹ The Company argued that investor relations expenses are not intended to benefit investors, but are necessary costs of operating as a public utility and therefore should be recoverable from customers. Thus, Xcel recommended that the Commission allow recovery of investor relations costs in rates as it has proposed.

3. Office of Attorney General - Direct

In Direct testimonies, the OAG disagreed with the Company's claim that investor relations costs do not benefit shareholders, noting that some activities directly provide information and services to shareholders.³⁸² The OAG stated that the Company requested to recover 100% of the Company's investor-relations costs \$842,648 in the Test Year and \$854,392 in the Plan Year.³⁸³ The OAG also noted that Xcel did not demonstrate what portion of the costs benefits ratepayers and failed to provide a detailed breakdown of the expenses when requested.

The OAG further noted that the Commission has historically allowed recovery of only 50 percent of investor relations costs in recent rate cases³⁸⁴, including Xcel's last rate case. Based

³⁸⁰ Xcel, Werner Direct, at 37

³⁸¹ Xcel, Halama Direct, at 72

³⁸² OAG, Lee Direct, at 14

³⁸³ *Id.*, at 13 and Schedule SL-D-4 at 2 (Xcel Energy Response to XLI IR# 15)

³⁸⁴ See *In re Application by CenterPoint Energy Minn. Gas, a div. of CenterPoint Energy Res. Corp. for Auth. to Increase Rates for Nat. Gas Utility Service in Minn.*, MPUC Docket No. G-008/GR 13-316, FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER at 22 (June 9, 2014) (eDocket No. 20146-100252-01); *In re Application of N. States Power Co. for Auth. to Increase Rates for Elec. Serv. in the State of Minn.*, MPUC Docket No. E002/GR-12-961, ORDER FINDINGS OF FACT, CONCLUSIONS AND ORDER at 46, Order Point 2 (Sep. 3, 2013) (eDocket No. 20139-90902-01). 35 *In re Application of N. States Power Co., d/b/a Xcel Energy, for Auth. to Increase Rates for Elec. Serv. in the State of Minn.*, MPUC Docket No. E-002/GR-21-630, Initial Filing Vol.

on this precedent, the OAG recommended limiting recovery to 50 percent of investor relations expenses and removing \$421,324 from the Test Year and \$427,196 from the Plan Year.

4. ALJ Report

The ALJ found:

718. It is undisputed in this proceeding that some level of recovery of investor relations expense is appropriate. The Company is correct that investor relations expenses confer some benefit on customers. The OAG's proposal reasonably reflects that benefit, while also recognizing the inherent shareholder benefit with an even split of the costs. This proposal is consistent with prior Commission decisions.

719. The Company has not met its burden to prove that the full cost of its investor relations expense are reasonable and necessary in the provision of utility service.

720. The Commission should adopt the OAG's recommendation and allow Xcel to recover half of its investor relations expenses through the MYRP bears the costs of a rate case.

5. Exceptions to ALJ Report

Xcel took exception to ALJ's recommendation, limiting recovery of investor relations expenses to 50 percent. The Company argued that these are necessary costs of operating a publicly traded utility, including maintaining a NASDAQ listing, providing stock transfer and shareholder services, holding annual shareholder meetings, and communicating with credit rating agencies and investors. The Company contended these activities help maintain strong demand for long-term debt securities and allow it to obtain favorable financing costs that benefit customers. Therefore, the Company argued the expenses should be fully recoverable.³⁸⁵

6. Staff Analysis

Staff concurs with the OAG's analysis that because investor relations costs directly benefit shareholders, and based on past Commission precedent, the Company was only allowed recover 50 percent of costs related to investor relations activities.

4. 3 of 3 MYRP Workpapers, VIII A12. Investor Relations at 1-2 (Oct. 25, 2021) (eDocket No. 202110179113-01).

³⁸⁵ Xcel, Exception to ALJ Report, at 61-62

7. Decision Options

1080 Allow Xcel to recover 100% of its investor relations expenses through the MYRP. (Xcel)

1081 Allow Xcel to recover 50% of its investor relations expenses through the MYRP. (OAG, ALJ)

Z. Rate Case Expenses

1. Issue

Should the Commission approve Xcel's proposed Rate Case expenses?

2. Xcel Energy – Direct

Xcel requested to recover \$4.9 million in rate case expenses over a three-year period of 2025-2027. The Company developed the budget by reviewing 2022-2024 actual electric rate case expenses, as well as plans for outside experts, expected regulatory and legal fees, and administrative cost estimates. A breakdown of these expenses is illustrated in Table 41 below.

Table 41 – Xcel's 2025-2026 Rate Case Expenses³⁸⁶

	2025 Test Year
Outside Legal Fees	\$2,505,000
Consulting	\$290,000
Regulatory Fees	\$1,500,000
Administrative Costs	\$658,400
Subtotal	\$4,953,400
Less Non-Regulated Estimate	\$33,488
Total Rate Case Expenses	\$4,919,912
Amortization Period – Years	3
Amortization Period - Months	36
Annual Rate Case Expense Amortization	\$1,639,971
Monthly Rate Case Expense Amortization	\$136,664

3. OAG – Direct

The OAG contended that it is unreasonable for Xcel's ratepayers to bear the full rate case expenses, as shareholders receive benefits such as dividends from the Company's efforts to

³⁸⁶ Xcel Initial Filing, Volume 4 --- MYRP Workpapers, VIII. A31, Rate Case Expense at 2.

increase rates. Additionally, expenses for cost-of-capital and return-on-equity witnesses benefit shareholders by supporting arguments for an increased return on investment.

The OAG indicated that Xcel's rate case expenses in the Test Year are estimated and locked into base rates until the next rate case, with ratepayers bearing the full risk of overpaying for rate case expenses.

The OAG cited a New Jersey Board of Public Utilities longstanding policy reflecting a 50 percent/50 percent sharing of rate case expense between shareholders and customers,³⁸⁷ indicating that "while a rate case benefits the ratepayers through the continuation of safe, adequate and proper utility service, it also benefits shareholders, because the Company has a renewed opportunity to earn a fair return on equity."³⁸⁸ The Missouri PUC also observed that 100 percent recovery from ratepayers "does not encourage reasonable levels of cost containment in the utility's rate case expense decisions."³⁸⁹

The OAG recommended a downward adjustment of \$0.8 million in both the 2025 Test Year and 2026 Plan Year to reflect that only 50 percent of rate case expenses will be recovered from ratepayers, arguing that the result would be consistent with the regulatory principle that costs follow benefits; that is, the party that benefits from its incurrence should pay for that cost.

4. Xcel Energy – Rebuttal

Xcel reaffirmed its original recommendation of \$4.9 million in rate case expense, to be recovered 100% from ratepayers, and amortized over 3 years.

Xcel argued that rate case expenses are a necessary cost of doing business and thus are included in the cost service and recoverable from customers. Additionally, the fundamental purpose of a rate case is to further a utility's right to recover prudently incurred costs necessary to provide service, as well as fund ongoing investments in infrastructure necessary to serve customers and maintain financial stability.

³⁸⁷ *In re the Petition of N.J. Nat. Gas Co. for Approval of an Increase in Gas Base Rates, for Changes in its Tariff for Gas Service Pursuant to N.J.S.A. 48:2-21 and N.J.S.A. 48:2-21.1, and for Changes to Depreciation Rates for Gas Property Pursuant to N.J.S.A. 48:2-18, and Other Requested Relief*, NJBPU Docket No. GR24010071, UPDATED 9+3 FILING UPDATE at 14 (May 15, 2024), available at <https://www.njng.com/regulatory/pdf/52306023-v1-2024-05-15-NJNG-2024-BRC-LtrToBPUSecretaryEncl9-3Filing.pdf>

³⁸⁸ Schedule SL-D-6 at 2 (*In re Verified Petition of Jersey Central Power and Light Co. for Review and Approval of an Increase in and Adjustments to its Unbundled Rates and Charges for Elec. Serc., and for Approval of Other Proposed Tariff Revisions in Connection Therewith; In re the Verified Petition of Jersey Central Power and Light Co. for Review and Approval of its Deferred Balances Relating to the Market Transition Charge and Societal Benefits Charge*, Docket No. ER02080506, OPINION at *143-144 (N.J. Bd. Pub. Utils. May 14, 2004) (LEXIS).

³⁸⁹ Schedule SL-D-7 at 11 (*In re Laclede Gas Co. Request to Increase Its Revenues for Gas Service*, No. GR-2017-0215/GR-2017-0216, AMENDED REPORT AND ORDER at 55 (Mo. Pub. Util. Comm.'n Mar. 7, 2018)).

Xcel recognized that controlling costs and maintaining efficient operations is beneficial to customers, while acknowledging that certain matters are outside Company control and directly impact the amount of rate case expense incurred. For instance, Xcel noted its 2022-2024 electric rate case expenses exceeded forecasts by \$0.1 million with the majority of the variance driven by regulatory fees, which represented over \$0.4 million not attributed to the Company's own costs.

5. OAG – Surrebuttal

The OAG noted that Xcel did not appear to refute the premise that shareholders benefit from rate cases at least as much as ratepayers. Additionally, Xcel did not provide further explanation beyond a generalized statement, as to how the Company minimizes rate case expenses or how it is incentivized to do so.

The OAG contended that Xcel's rate case expenses for its last three fully litigated rate cases continued to increase, as shown in Table 42 below.

Table 42 - Rate Case Expenses Recovered from Ratepayers³⁹⁰

	13-868	15-826	21-630
	Approved Amount	Approved Amount	Approved Amount
Total	\$2,714,433 ³⁹¹	\$3,339,545 ³⁹²	\$4,686,303 ³⁹³

The OAG reaffirmed its original recommendation to disallow 50 percent of rate case expenses totaling \$0.8 million in the 2025 Test Year and the 2026 Plan Year.

6. Initial Briefs

All parties reaffirmed their existing recommendations and arguments.

7. Reply Briefs

Xcel noted that the level of rate case expense must be understood in the context of changes in regulatory expectations, case complexity, and the substantial growth of discovery and stakeholder participation since 2013. Additionally, the Minnesota Commission had previously

³⁹⁰ Ex. OAG-7 at 16. (Lee Surrebuttal)

³⁹¹ *In the Matter of the Application of Northern States Power Company for Authority to Increase Rates for Electric Service in the State of Minnesota*, Docket No. E-002/GR-13-868, Ex. Xcel-88 at Schedule 20. (Nov. 4, 2013)

³⁹² *In the Matter of the Application of Northern States Power Company for Authority to Increase Rates for Electric Service in the State of Minnesota*, Docket No. E-002/GR-15-826, RATE CASE EXPENSES COMPLIANCE FILING at Attachment A. (Sept. 8, 2017)

³⁹³ *In the Matter of the Application of Northern States Power Company, dba Xcel Energy, for Authority to Increase Rates for Electric Service in the State of Minnesota*, Docket No. E-002/GR-21-630, VOL. 4 3 OF 3 MYRP WORKPAPERS, VIII A41. RATE CASE EXPENSES at 1. (Oct. 25, 2021)

considered and rejected proposals to split rate case expenses evenly between shareholders and customers.³⁹⁴

The OAG noted that the Commission has previously “concur[red] with the RUD-OAG on the importance of controlling rate case costs, and is open to new approaches accomplishing that goal.”³⁹⁵ The Commission has also previously suspected that a requested level of rate case expense would “likely be lower than initially projected,” and required Xcel to make a filing to track rate case costs.³⁹⁶

CUB noted of arguing in previous Dockets that rate case expenses do not provide a complete picture of customer financial impacts, as numerous riders and true-up mechanisms exist outside base rates that are not considered contemporaneously with rate case issues.

8. ALJ Report

The ALJ noted the following in his findings:

733. As an initial matter, the Company is correct about the impact of the size and complexity of proceedings such as this. As the drafter of this Report, the Court is keenly aware of the quantity and complexity of the issues raised. Many parties in this proceeding have contributed to this reality, as demonstrated by the amount of discovery requests and testimony filings highlighted by the Company.³⁹⁷

734. The OAG focuses more on the broad point about splitting responsibility for rate case expenses, rather than the reasonableness of the specific amount in controversy. The OAG, in a sense, is correct that shareholders stand to benefit from a rate case. But this argument is somewhat reductive. The outcome of this proceeding will be the Company’s statutorily authorized regulator determining the appropriate cost of providing service, and allowing Xcel to recover that amount in rates. In other words, by definition, the purpose and outcome of this case will be that Xcel is allowed to charge customers for reasonable and necessary

³⁹⁴ See *In the Matter of the Application of Minnesota Power for Authority to Increase Rates for Electric Service in Minnesota*, Docket No. E015/GR-09-1151, FINDINGS OF FACT, CONCLUSIONS, AND ORDER (Nov. 2, 2010).

³⁹⁵ *In the Matter of the Application of Minnesota Power for Authority to Increase Rates for Electric Service in Minnesota*, Docket No. E-015/GR-09-1151, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 37.

³⁹⁶ *In the Matter of the Application of Northern States Power Company for Authority to Increase Rates for Electric Service in the State of Minnesota*, Docket No. E-002/GR-15-826, FINDINGS OF FACT, CONCLUSION AND ORDER at 36. (June 12, 2017)

³⁹⁷ This observation should not be read as a criticism of any party. Every party in this proceeding, as well as the numerous members of the public who contributed to the record through written or oral comments, has helped build a robust and transparent record that benefits both the Court in developing its recommendation for the Commission and the public in understanding how its rates are set.

costs. It necessarily follows that the cost of the regulatory proceeding to recover those costs is, in and of itself, a necessary cost.

735. The OAG's arguments about shareholder responsibility are reflected in other sections in this Report. To the extent there are specific costs that ought not be borne by ratepayers, this Report recommends the appropriate adjustments. Separately reducing rate case expense recovery for the same reason would be duplicative.

736. The OAG's arguments with respect to the utility lacking an incentive to control costs that it passes on to customers through rates are also unpersuasive. This feature is not unique to rate case expenses, as the same can be said of any expense category recovered through rates. This proceeding is the very remedy for this concern. Intervenors have recommended reductions for various expense categories and, where appropriate, this Report recommends adjustments. This is not a basis for a substantial categorical reduction in the recovery level for one type of expense.

737. It is true that other jurisdictions have reached different conclusions. The Commission, however, has consistently treated reasonable and prudent rate case expenses as a fully recoverable cost of providing service. This record does not support changing course.

738. The Company has met its burden to demonstrate that its requested rate case expenses are a reasonable and necessary cost of providing service.

739. The Commission should approve recovery of rate case expenses at the Company's requested level.

9. Exceptions to ALJ Report

The OAG contended there were three problems with the ALJ Report's logic.

First, the finding of just and reasonable rates did not undermine the OAG's argument that costs should be shared because they benefit shareholders as much as ratepayers. Second, if the ALJ's logic were adopted, no rate case expenses could ever be disallowed, at least not without a painstaking inquiry into discrete line items. Third, the Report does not give sufficient weight to the discretionary nature of Xcel's rate requests, in whether to file them, how much to request, as well as the aggressiveness with which Xcel has pursued annual rate increases.

Additionally, the OAG noted that Xcel's request to increase rates in the current proceeding would extend a 13-year period during which Xcel has pursued, and received, a rate hike in every year but one.³⁹⁸ Over the same timeframe, the OAG indicated that Otter Tail received three

³⁹⁸ See [OAG Comments](#) at 3–4 (Nov. 12, 2024) (detailing Xcel's rate requests over 2011–2023).

rate increases,³⁹⁹ Minnesota Power received three,⁴⁰⁰ and Dakota Electric received two.⁴⁰¹ Further, Xcel asked for nearly \$1 billion more in rate hikes than the Commission found was just and reasonable.⁴⁰²

The OAG proposed the following modifications to the ALJ's findings.

722. The Commission has ~~consistently~~ allowed utilities to recover reasonable and prudent rate case expenses through general rate cases. This practice is grounded in the principle that utilities should be permitted to recover costs that are necessary for providing adequate and efficient service to ratepayers, including the costs associated with regulatory proceedings, where such recovery will result in just and reasonable rates. As the Commission has recognized, rate case proceedings are complex and “the Commission must decide a wide range of issues, from the accuracy of the financial information provided by the utility to the prudence and reasonableness of the underlying transactions and business judgments, to the proper distribution of the final revenue requirement among different customer classes.” Intervenors have not traditionally challenged rate-case expenses. However, in recent cases, the OAG and other parties have begun to challenge these expenses, resulting in several recent settlement agreements that involved rate-case expenses being split 50/50. The Commission found the rates resulting from these settlements to be just and reasonable based upon the parties’ proposed resolution of the issues.

734. The OAG focuses more on the broad point about splitting responsibility for rate case expenses, rather than the reasonableness of the specific amount in controversy. The OAG, ~~in a sense,~~ is correct that shareholders stand to benefit from a rate case. ~~But this argument is somewhat reductive. The outcome of this proceeding will be the Company’s statutorily authorized regulator determining the appropriate cost of providing service, and allowing Xcel to recover that amount in rates. In other words, by definition, the purpose and outcome of this case will be that Xcel is allowed to charge customers for reasonable and necessary costs. It necessarily follows that the cost of the regulatory proceeding to recover those costs is, in and of itself, a necessary cost. Rate cases benefit shareholders by enabling the utility to increase the revenue requirement it collects from ratepayers, which supports the utility’s ability to issue consistent dividends. Most obviously, expenses for a utility’s cost-of-capital and return-on-equity witnesses benefit shareholders by supporting arguments for an increased return on investment. But all rate case expenses, to the degree that they support arguments~~

³⁹⁹ See Docket Nos. E-017/GR-10-239, 15-1033, 20-719.

⁴⁰⁰ See Docket Nos. E-015/GR-16-664, 19-442, 21-335.

⁴⁰¹ See Docket Nos. E-111/GR-14-482, 19-478.

⁴⁰² [OAG Comments](#) at 13 (Nov. 12, 2024).

for a higher revenue requirement, benefit shareholders by increasing the likelihood that a utility will have enough cash available to pay consistent dividends.

736. The OAG's arguments with respect to the utility lacking an incentive to control costs that it passes on to customers through rates ~~are also unpersuasive also have merit. This feature is not unique to rate case expenses, as the same can be said of any expense category recovered through rates. This proceeding is the very remedy for this concern. Intervenors have recommended reductions for various expense categories and, where appropriate, this Report recommends adjustments. This is not a basis for a substantial categorical reduction in the recovery level for one type of expense. Unless rate-case expenses are scrutinized in a rate case and the Commission disallows some or all of them, they are simply passed through to customers. While rate-case expenses represent a relatively modest percentage of Xcel's overall revenue requirement, requiring the utility to share them will provide a measure of fiscal discipline without necessitating intensive scrutiny of line items. Such an inquiry itself could drive up rate-case expenses.~~

737. ~~It is true t~~That other jurisdictions have reached different conclusions, while not determinative, is also a fact that supports changing course from past practice. ~~The Commission, however, has consistently treated reasonable and prudent rate case expenses as a fully recoverable cost of providing service. This record does not support changing course.~~

738. The Company has not met its burden to demonstrate that ~~its requested rate case expenses are a reasonable and necessary cost of providing service~~ it is just and reasonable for ratepayers to bear all Xcel's rate-case expenses. Instead, given the relative benefits of the rate case for shareholders and ratepayers, it is just and reasonable to require Xcel to bear half of these expenses.

739. The Commission should approve recovery of rate case expenses at half the Company's requested level.

10. Staff Analysis

Staff notes that in Minnesota Power's 2009 rate case, the Commission rejected the OAG's argument to reduce rate case expense recovery by 50%.⁴⁰³ However, in some recently settled rate cases, CenterPoint's 2023 rate case expense was reduced by 50% in both years,⁴⁰⁴ while

⁴⁰³ *In the Matter of the Application of Minnesota Power for Authority to Increase Rates for Electric Service in Minnesota*, Docket No. E-015/GR-09-1151, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 36-37. (November 2, 2010)

⁴⁰⁴ *In the Matter of the Petition by CenterPoint Energy Minnesota Gas for Authority to Increase Natural Gas Rates in Minnesota*, Docket No. G-008/GR-23-173, SETTLEMENT, at 12 (November 25, 2024), as adopted by the Commission on June 27, 2025.

Xcel Gas⁴⁰⁵ and Minnesota Power's⁴⁰⁶ 2023 rate case expenses were reduced by 50% for one of the test years.

11. Decision Options

1082 Approve Xcel's request to recover \$4.9 million in rate case expenses, amortized over a three-year period of 2025-2027, and to be 100 percent recovered from ratepayers. (ALJ, Xcel)

1083 Remove \$0.8 million in rate case expenses from both 2025 and 2026, reflecting that only 50 percent of expenses will be recovered from ratepayers. (OAG)

AA.Liquidated Damages

1. Issue

Should the Commission require Xcel Energy to include forecasted credit for wind turbine Liquidated Damages (LD) in their O&M expense forecasts?

2. Summary

Xcel Energy has O&M service agreements with service providers to maintain and operate wind facilities. These service agreements include an "availability covenant" that provides a Projected Average Availability (PAA) for a given production period. If the contractual Measured Average Availability (MAA) is less than the PAA for a production period, liquidated damages are owed to the Company.

3. Xcel Energy – Direct

Xcel Energy did not include a forecast for liquidated damages in 2025 Test Year or 2026 Plan Year O&M budgets due to the uncertainty of related payments. Liquidated damages (LDs) arise when wind facility availability falls below contractual threshold and that amount is highly variable factors affect whether and how much LD is owed. The Company believed the variability makes forecasting LD improbable. The O&M budget for 2025 Test Year increased 11% compared to 2023 actuals and 2026 Plan Year increased 14.9% compared to 2025.

⁴⁰⁵ *In the Matter of the Application of Northern States Power Company for Authority to Increase Rates for Natural Gas Service in Minnesota*, Docket No. G-002/GR-23-413, SETTLEMENT AGREEMENT, at 9-10 (June 26, 2024), as adopted by the Commission on March 5, 2025.

⁴⁰⁶ *In the Matter of the Application of Minnesota Power for Authority to Increase Rates for Electric Utility Service in Minnesota*, Docket No. E015/GR-23-155, SETTLEMENT AGREEMENT, at 7-8 (May 3, 2024),

4. Department of Commerce – Direct

The Department requested that the Company include LD the in 2025 Test Year and 2026 Plan Year, as the last three years of actuals showed there is significant amount collected. The Company can use the three-year average as shown in table 43 below:

Table 43: 2022-2024 Liquidated Damages⁴⁰⁷

Year	Actual Liquidated Damages
2022	\$3,452,010
2023	\$9,361,358
2024	\$2,218,261
2025 YTD (through 3/31/2025)	\$20,010
3-Year Average (2022–2024)	\$5,010,543

5. Xcel Energy – Rebuttal

Xcel Energy discovered a data error in IR sent to the Department that was used in calculating the 3-year average. With the updated information the 3-year average decreased from \$5 million to \$3.4 million. Another reason the Company recommended not including LDs in O&M forecast is that customers have already received refunds through the RES Rider. The Company also pointed out that LD payments are concentrated in the early years of a facility’s life cycle and that with no new wind facilities planned in 2025, the forecast would be even smaller and harder to predict.

6. Department of Commerce – Surrebuttal

The Department revised its calculations and recommendations to reflect the corrected amounts based on RES Rider returns to customers and corrected errors. The Department still found it to be justified to forecast LD, but instead of \$5 million per year the Department found that \$700 thousand is a better forecast for the 2025 Test Year and 2026 Plan Year for O&M forecasts with the updated information.

7. ALJ Report

The ALJ Found:

750. Accordingly, the appropriate adjustment in this proceeding is to reduce

⁴⁰⁷ Per Xcel’s Response to Department Information Request No. 156, Attachment A; see Ex. DOC-1, MAJ-D-6 (Johnson Direct).

Xcel's requested level of rate recovery by \$210,127 in both the 2025 Test Year and 2026 Plan Year. This reflects the \$700,424 annualized actual revenue for 2025, less the 70 percent of payments that are likely to be returned to customers through the RES rider. Because of the downward trend, such an adjustment would still be conservative from lens of the consumer.

751. The Commission should adjust Xcel's request to reflect \$210,127 for revenue for liquidated damages in the 2025 test year and 2026 plan year.

8. Staff Analysis

Staff concurs with the ALJ as it has been shown the liquidated damages are recurring and should be reflected in O&M forecasts.

9. Decision Options

1084 Allow Xcel Energy to exclude liquidated damages from O&M Forecast. (Xcel Energy)

1085 Require Xcel Energy to include liquidated damages in O&M Forecast. (Department)

BB. Insurance Expense

1. Issue

Should the Commission approve Xcel's proposed excess liability and insurance premium expenses?

2. Xcel Energy – Direct

Xcel's proposed Minnesota electric jurisdiction insurance premium costs are \$34.2 million for 2025 and \$37.6 million for 2026.⁴⁰⁸ Additionally, these amounts are net of budgeted distributions from mutual insurance and captive insurance providers, and do not include costs associated with workers' compensation coverage.

Xcel said that its annual policy renewal process was developed by consulting with insurance brokers to anticipate the general insurance markets trend for the industry, and other exposure metrics including number of employees, miles of pipes and wires, or insurable value of its assets. The Company said test year budget was based on insurance premium paid in 2023-2024 and net of distributions from mutual insurance and captive insurance providers.

Table 44 shows the Company's 2021-2026 MN jurisdiction actual and forecasted insurance premium costs (in thousands of dollars).

⁴⁰⁸ Ex. Xcel-53 at 19 (Miller Direct)

Table 44 - Xcel's 2021-2026 Minnesota Jurisdiction Insurance Premium Costs (\$M)⁴⁰⁹

2021 Actual	2022 Actual	2023 Actual	2024 Bridge Year	2025 Test Year	2026 Test Year
9,931	22,114	18,287	21,057	34,237	37,642

The forecasted insurance premiums increased due to the increase of industry claims and overall hardening of the insurance market especially in the conventional property and excess liability areas. The Company explained “a hardening market means that insurance capacity is reducing, which allows for insurance companies to increase premiums pursuant to basic supply and demand principles. Conversely in a soft market, there is greater insurance capacity, and the advantage shifts to the insureds, as there is more coverage on the market for insureds to choose from, which normally reduces cost.”⁴¹⁰

Xcel defined Excess Liability insurance coverage as for liability to third-parties for coverage limits over and above those provided by the Primary Casualty Insurance Program. The Company identified the major catastrophic risks, conferred with a broker, and examined industry surveys to determine the appropriate amount of total coverage.

Xcel indicated that the main cost drivers of Excess Liability Insurance are the Company's inherent risk profile, claims history, industry wide loss experience, and macro-economic factors affecting the investment markets. The cost of this insurance increased 30% in 2023 and 24.7% in 2024, due to hardened insurance markets, and large industry-wide losses such as wildfires and gas explosions. With increased market pressure, Xcel expected an increase of 230% in 2025 and 113% in 2026.

3. Department of Commerce – Direct

The Department indicated that Xcel had not fully addressed the six specific insurance premium expense topics noted in the Commission's Notice and Order for Hearing,⁴¹¹ and requested the Company do so in rebuttal.

The Department noted that Xcel's 2025 Minnesota Electric jurisdiction expense of \$34.2 million appeared out of line with historical expenses. In response to an information request, Xcel indicated various reasons for premium increases such as inflationary pressures, market conditions, unfavorable and increased losses, and processing a higher amount of surety bonds.⁴¹² The Department argued that these were not sufficient explanations for the 2025-2026 insurance premium expense estimates.

The Department recommended estimating the Company's 2025 MN Electric Jurisdiction insurance premium expense based on the 2020-2024 percent average annual increase. For

⁴⁰⁹ *Id.*, at RLM-1, Schedule 5 (Miller Direct)

⁴¹⁰ *Id.*, at 22-23.

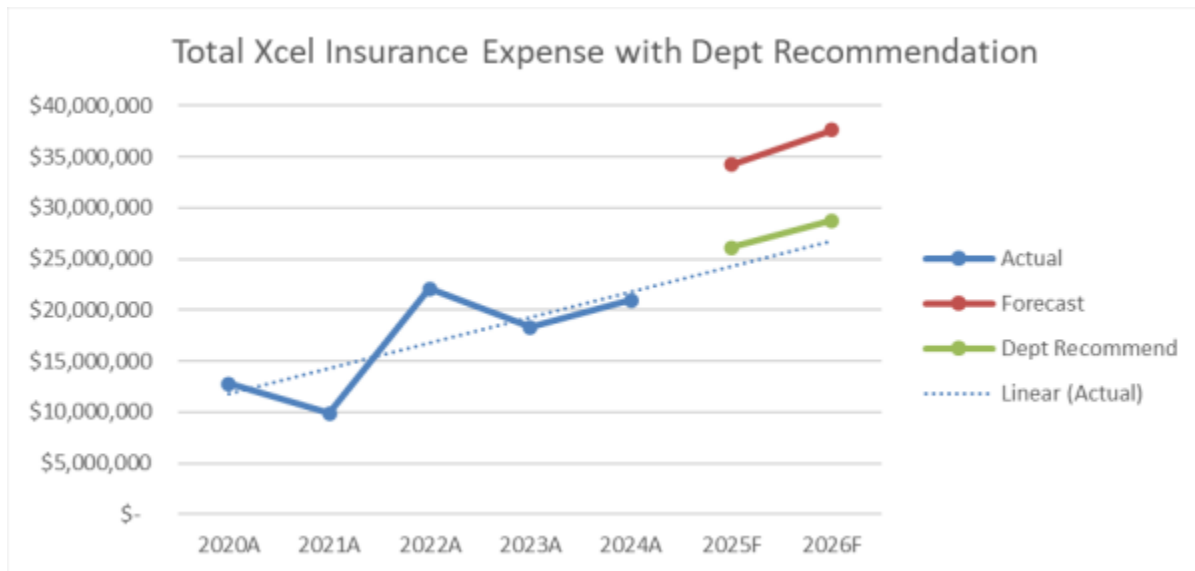
⁴¹¹ NOTICE AND ORDER FOR HEARING at 3-4. (Dec. 30, 2024)

⁴¹² Ex. DOC-23, HDJ-D-9. (Jones Direct) (Xcel Response to DOC IR 2106)

2026, the Department recommended using its 2025 dollar amount, and applying Xcel's 2026 proposed year-over-year percent increase.⁴¹³

The Department argued that its recommended reductions are more consistent with the trendline of historical average increases, and compared its recommendation to Xcel's proposed amounts in Table 45 below.

Table 45: MN Electric Jurisdictional Insurance Expense 2020-2026 with Department Recommendation⁴¹⁴



4. XLI – Direct

XLI noted that NSPM's Excess Liability Insurance (ELI) increased almost 160% from 2024 to projected 2025, and are expected to triple in cost from 2023 through 2026. Additionally, NSPM noted that in late 2023, excess liability insurers modified their wildfire risk ranking based on geographies, with several of its service territories falling within higher risk geographies. This change resulted in a significant increase in premium costs at the enterprise level.⁴¹⁵

XLI argued that NSPM customers should not be adversely impacted or forced to subsidize the impacts of wildfires that occurred in the service territories of other Xcel Energy utilities. Further, XLI recommended that Xcel's 2025 and 2026 ELI expenses should be reduced based on the average increase over the 2022-2024 period, which is 18.5%.

Additionally, XLI noted that its recommendation aligned with previous ELI expense trends, recognized the increased wildfire risk for all utilities, and prevents NSPM customers from paying more than their fair share of Xcel Energy's total ELI expense.

⁴¹³ Calculation as follows: $\$37.6 - \$34.2 = \$3.4 / \$34.2 = 9.95\%$.

⁴¹⁴ Ex. DOC-23 at 26. (Jones Direct)

⁴¹⁵ Ex. XLI-1 (NSPM Response to DOC-1165 Public). (Laconte Direct)

5. Xcel Energy – Rebuttal

Xcel responded to the six issues the Commission identified in its Order to be developed in this rate case with respect to insurance.⁴¹⁶

Regarding forecasted and actual annual expenses for each subcategory of expenses and credits from 2017-2024, Xcel noted the information for the Minnesota electric jurisdiction was provided in Schedule 2 of rebuttal testimony.⁴¹⁷ Xcel noted that these expenses did not include any regulatory disallowances, nor is indicative of the level of cost recovery.

Xcel defined each subcategory and their business purpose as follows:

Master Property Insurance – acts like homeowners insurance, and intended to insure against risk of direct physical loss or damage to non-nuclear generating fleet and other property except for transmission and distribution lines beyond 1,000 feet of insured locations. Xcel operates just under \$20 billion of non-generation assets it believed prudent to insure, and its debt covenants require minimum levels of this insurance to protect collateral.

Excess Liability Insurance (ELI) – intended to insure against liability to third parties for coverage limits over and above those provided by the Primary Casualty Insurance Program. Examples of risks covered include serious injury or death to members of the public caused by Xcel’s employees, equipment or facilities, such as power line contact or a gas explosion, as well as claims alleging environmental damage.

Directors’ and Officers’ Liability Insurance – intended to provide financial protection for directors and officers against personal liability arising from claims brought by investors, employees, vendors, competitors, customers, and other parties. Xcel cited Minnesota law⁴¹⁸ and continuation of attracting talent in its legal obligation to indemnify its directors and officers, but noted that no claim will be paid if they are found guilty of criminal wrongdoing, which is an important limitation to this coverage.

Fiduciary Liability Insurance – intended to protect employees who design and administer employee pension and benefit plans, including the management of the assets and liabilities, and who may be liable for any breach of fiduciary duties. Xcel noted that Employee Retirement Income Security Act (ERISA) activities carry the risk of claims for breach of fiduciary duties, such as selecting and monitoring plan investment vehicles and third-party service providers; interpreting plan provisions; and exercising discretion in denying or approving benefit claims.

Nuclear Insurance Program – intended to insure the Company against property damage, site decontamination, business interruption and third-party liability arising from the Monticello and Prairie Island nuclear generating facilities. Xcel noted specific components of this insurance –

⁴¹⁶ See NOTICE AND ORDER FOR HEARING at 3-4. (Dec. 30, 2024)

⁴¹⁷ Ex. Xcel-56 at RLM-2, Schedule 2. (Miller Rebuttal)

⁴¹⁸ Minn. Stat. § 302A.521.

nuclear property damage; nuclear accidental outage; and nuclear liability insurance, with additional Secondary Financial Protection – and indicated that as commercial insurance markets generally exclude nuclear hazards, nuclear power operators needed to create their own market.

Primary Casualty Insurance Program – intended to insure the Company against liability to third parties and employees, which included claims that Xcel’s equipment or personnel damaged third-party property or caused third-party injury. The program includes general liability coverage, automobile liability coverage, and workers’ compensation coverage. Xcel also noted its obligation to meet various legal and regulatory requirements with respect to automobile liability and workers’ compensation insurance.

Regarding the extent to which the Marshall and Smokehouse Creek wildfires affected the insurance premium, rate of return, or borrowing costs for Minnesota, Xcel indicated that in late 2023, ELI insurers modified underwriting guidelines that reclassified wildfire risk which created gaps in ELI wildfire coverage, resulting in increased premiums. However, while these wildfires have changed the ELI market and raised costs for coverage, these fires did not directly impact the premiums for the Minnesota Electric jurisdiction. Additionally, Xcel noted that loss loading ensured that premium impacts related to specific losses are allocated to the jurisdiction that owns the particular loss. Because the Marshall fire occurred in Colorado, Xcel noted that Minnesota’s premium expenses will not be impacted.

Regarding a thorough description of actual refund or credit Xcel received for insurance premiums since 2017, as well as supporting Documentation, Xcel noted the information was provided in Schedule 3 and 3a of rebuttal testimony.⁴¹⁹

Regarding 2017-2024 refunds and credits received, and descriptions of predictions for refunds or credits in 2025 and 2026 budget or absence of refunds, Xcel indicated that these distributions are not generally consistent or predictable, as premium credits are part of total premium already accounted for in the premium forecast/budget. Xcel noted that Schedule 3 shows the NSPM electric and gas portion of the distributions for the captive, EIM, Everen, Aegis General and Aegis loyalty credits for 2017-present, and that from 2022-2024, customers paid less than the full insurance premium expense, net of credits.

Regarding the lack of sufficient predictability in refunds and credits to ensure fair and just rates, and proposed mechanisms through which ratepayers can be appropriately reimbursed for insurance expense refunds and credits included in base rates; Xcel indicated that some distributions are embedded in the premium or are forecasted going forward. For 2022-2024, Xcel noted that it under-recovered its insurance premium expenses, even after accounting distributions or credits not forecasted or embedded in the premium. To the extent the Commission still had concerns that ratepayers may not be “getting credit” for insurance refunds, credits or distributions, Xcel proposed a symmetrical true-up. This would allow refunds

⁴¹⁹ Ex. Xcel-56 at RLM-2, Schedule 3. (Miller Rebuttal)

to customers for any over-recovery of insurance expenses in a given year, and likewise, a surcharge for any under-recovery.

Xcel disagreed with XLI and the Department's recommended reductions in insurance premiums, noting that the 2025 premium cost annual renewal increases demonstrated that its predictions of market hardening and increased wildfire exposure risk were correct. Additionally, the application of wildfire and loss loading did not result in increased expense to Minnesota, thus NSPM was not subsidizing other jurisdictions.

Regarding ELI, Xcel noted that the Department and XLI's recommendations would lead to substantial under-recovery for 2025-2026, noting that actual ELI expenses were higher than forecast since filing the rate case. Additionally, the average methodology utilized by XLI and the Department did not take into account the insurers' underwriting guideline changes that took place in late 2023.

6. XLI – Surrebuttal

XLI reiterated that Xcel procures ELI as a whole, and noted that the overall ELI expenses remain higher than previous years due to wildfires in other jurisdictions. XLI indicated that NSPM's affiliate risk is higher than NSPM, but nonetheless still contributed to a higher overall ELI cost increase.

XLI argued that Xcel's 2025 and 2026 ELI expenses should be based on the average increase in NSPM's 2022-2024 ELI expense to NSPM's 2024 ELI expense (and calculated 2025 ELI expense).⁴²⁰

7. Department – Surrebuttal

The Department noted that between 2021 and 2025, the year over year changes in insurance costs fluctuated from -22.13% to 122.67%. As such, the Department indicated that a longer look back period is better able to capture the insurance market volatility.

The Department cited a previous Commission Order, which stated as follows:⁴²¹

Often, in situations where costs vary from year to year, test-year costs are set based on historical averages rather than attempting to choose one specific year to represent likely future costs.

Additionally, the Department noted the use of historical cost averages for several expenses in other general rate cases, including generation O&M supervision, engineering, meter-reading,

⁴²⁰ See Ex. XLI-8 at 22 for Trade Secret amounts. (LaConte Surrebuttal)

⁴²¹ *In the Matter of the Application of Otter Tail Power Company for Authority to Increase Rates for Electric Service in the State of Minnesota*, Docket No. E-017/GR-20-719, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 13. (Feb. 1, 2022)

employee benefit expenses, and employee expenses,⁴²² bad debt expense,⁴²³ and insurance premium expense.⁴²⁴

The Department estimated Xcel's 2025 insurance premium expense by using the 2021 to 2024 actual/historical average increase. For 2026, the Department recommended using its 2025 dollar amount, and applying Xcel's 2026 year-over-year percent increase, as provided in direct testimony. The Department noted that Xcel recommended an additional \$2.8 million and \$3.1 million in expense for 2025 and 2026 due to an erroneous Department adjustment. Net of the adjustment, the Department recommended a reduction in Xcel's insurance expense of \$5.3 million in 2025, and \$5.8 million in 2026.⁴²⁵

8. Initial Briefs

Xcel argued that 2022-2024 insurance expenses were under-recovered by millions of dollars by the Commission's adoption of cost averaging rather than relying on Company forecasts, and the Department acknowledged this at the evidentiary hearing.⁴²⁶ Xcel noted that Company forecasts are a more accurate predictor of actual expense than averaging.

Xcel reiterated its offer of a symmetrical true up of insurance costs, in order to prevent over- or under- recovery, which was not addressed by any other party.

All other parties reaffirmed their existing recommendations and arguments.

9. ALJ Report

The ALJ noted the following in his findings:

764. Xcel was allocated a lower percentage of Excess Liability Premium cost in the July 2025 forecast than in the initial forecast as a result of loss and wildfire loading provided by the Company's insurance brokers.

⁴²² *In the Matter of the Application of Minnesota Power for Authority to Increase Rates for Electric Service in Minnesota*, Docket No. E-015/GR-16-664, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 19, 37, and 39. (Mar. 12, 2018)

⁴²³ *In the Matter of the Application of Minnesota Power for Authority to Increase Rates for Electric Service in Minnesota*, Docket No. E-015/GR-21-335, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 10. (Feb. 28, 2023)

⁴²⁴ *In the Matter of the Application of Northern States Power Company, dba Xcel Energy, for Authority to Increase Rates for Electric Service in the State of Minnesota*, Docket No. E-002/GR-21-630, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 37. (Jul. 17, 2023)

⁴²⁵ Ex. DOC-24 at 26-27. (Jones Surrebuttal)

⁴²⁶ Evidentiary Hearing Transcripts, Volume 2 (Dec. 18, 2025) at 423 (Jones).

765. This evidence both corroborates the accuracy of the Company's initial forecast and demonstrates that loss and wildfire loading by Xcel's brokers is appropriately allocating risk among Xcel Energy, Inc.'s various jurisdictions.

766. The Commission should also establish a symmetrical true-up for insurance costs to ensure that the Company neither over-recovers nor under-recovers its insurance costs.⁴²⁷ While true-ups should not be relied on excessively as a substitute for accurate expense forecasting, these costs are particularly well-suited for such a mechanism. The type and nature of Xcel's coverage is not disputed by any party, is a reasonable and necessary cost of providing utility service, and is subject to substantial variation in cost. A true-up would reasonably protect ratepayers from over-paying, while also allow Xcel to recovery a necessary cost.

767. The Company has met its burden to establish that its forecasted Excess Liability Premium costs are reasonable and should be approved by the Commission as the baseline for this true-up mechanism.

10. Exceptions to ALJ Report

a. Department

The Department contended that insurance premium expenses should be set based on Commission precedent of historical averages, rather than being subjected to a true-up, which may erode a utility's incentive to control costs.⁴²⁸ Additionally, moving expenses to a true-up basis "effectively takes them 'off the table' in a rate case review," and "constricts the Commission's rate-making authority."⁴²⁹

The Department argued that Xcel's forecasting approach ignored potential and estimated credits such as surplus and captive distribution credits in 2025 and 2026. Given the Commission's order to fully develop the record on this issue, the Department contended that Xcel had not established that its proposal results in just and reasonable rates for Minnesota ratepayers.

Further, the Department indicated that the reduced allocation of Excess Liability Premium expense to Minnesota does not establish the accuracy of the revised allocation methodology. Instead, it demonstrated the validity of the Department's concerns that Xcel has not fairly allocated its insurance premium expense, and has provided insufficient information to allow other parties to independently analyze its claims.

The Department proposed the following modifications to the ALJ's findings.

⁴²⁷ The Company proposed a symmetrical true-up mechanism for these costs in Rebuttal Testimony. Ex. Xcel-56 at 11-23 (Miller Rebuttal). Neither the Department nor XLI responded to this suggestion in Surrebuttal Testimony.

⁴²⁸ *Minn. Pub. Utils. Comm'n*, REPORT TO THE LEGISLATURE: UTILITY RATES STUDY at 7 (Jun. 2010) https://mn.gov/puc/assets/012854_tcm14-5188.pdf (PUC Rates Study Report).

⁴²⁹ *Id.* at 8.

763. The Company updated its Excess Liability Insurance Premium information in Rebuttal Testimony, providing a July 2025 forecast that was based on six months of actual premium experience. The change in Excess Liability premium costs for the Minnesota electrical jurisdiction were not substantial, and the Company did not update its requested recovery of premium costs.

765. This evidence both ~~corroborates the accuracy of the Company's initial forecast and~~ demonstrates the validity of the Department's concerns that loss and wildfire loading by Xcel's brokers is was not appropriately allocating risk among Xcel Energy, Inc.'s various jurisdictions.

~~766. The Commission should also establish a symmetrical true-up for insurance costs to ensure that the Company neither over-recovers nor under-recovers its insurance costs. While true-ups should not be relied on excessively as a substitute for accurate expense forecasting, these costs are particularly well-suited for such a mechanism. The type and nature of Xcel's coverage is not disputed by any party, is a reasonable and necessary cost of providing utility service, and is subject to substantial variation in cost. A true-up would reasonably protect ratepayers from over-paying, while also allow Xcel to recovery a necessary cost.~~

~~767. The Company has met its burden to establish that its forecasted Excess Liability Premium costs are reasonable and should be approved by the Commission as the baseline for this true-up mechanism.~~

766. Xcel has not met its burden to show that its proposed insurance premium expense is reasonable. The forecasted insurance premium expense includes significant increases in the company's excess liability premiums driven by the cost of wildfires.

767. Although Xcel asserted that none of the direct insurance premium expenses attributable to the Marshall Wildfire in Colorado and the 2024 Smokehouse Creek Fire Complex in Texas were assigned to the Minnesota jurisdiction, it acknowledged that "these wildfires...have changed the insurance market and raised costs for ELI coverage overall." The company added that its excess liability premiums are drive by "the Company's inherent risk profile, its claims history, [and] industry wide loss experience." Xcel has not shown that its allocation of excess liability premiums across its different jurisdictions would result in fair and just rates for Minnesota ratepayers.

768. No party has demonstrated an ability to accurately forecast Xcel's overall insurance premium expense or its refunds and credits. The insurance premium expense authorized in the last rate case resulted in under-recovery of the company's insurance premium expense from 2022 through 2024. But the company's forecast for those years was also inaccurate. Looking back at forecast expenses compared to actual expenses since 2017, as the Commission ordered, reveals a clear pattern of over-forecasting insurance premium expense by Xcel.

769. A significant portion of the total insurance premium expense is attributable to refunds and credits, which fluctuate greatly from year to year. As a result, annual changes in insurance premium expense have fluctuated from as little as -22.13% to as much as 122.67%. Where costs vary from year to year, it is reasonable to set costs based on historical averages. The Department's proposal to use a four-year average to set insurance premium expense increases is reasonable and is adopted by the Commission.

b. XLI

XLI argued that the Company had not established that the Minnesota-jurisdictional portion of ELI expense was properly allocated, and has also increased by 160%.

Additionally, the ALJ appeared to overlook that "Xcel's wildfire risk in Minnesota is low compared to wildfire risks nationally and Minnesota as a whole."⁴³⁰ XLI remained concerned that NSP customers are subsidizing these costs from other jurisdictions, and that the Company has not met its burden to demonstrate the Minnesota-jurisdictional portion of overall ELI expense results in just and reasonable rates.

XLI proposed the following modifications to the ALJ's findings.

~~762. Notably, neither the Department nor XLI disputes the type or amount of coverage obtained by the Company. The Minnesota-jurisdictional portion of the overall ELI expense has increased by 160%, and as stated earlier in this Report, Xcel's wildfire risk in Minnesota is low compared to wildfire risks nationally and Minnesota as a whole.~~

~~763-762.~~ The Company updated its Excess Liability Insurance Premium information in Rebuttal Testimony, providing a July 2025 forecast that was based on six months of actual premium experience. The change in Excess Liability premium costs were not substantial, and the Company did not update its requested recovery of premium costs.

~~764-763.~~ Xcel was allocated a lower percentage of Excess Liability Premium cost in the July 2025 forecast than in the initial forecast as a result of loss and wildfire loading provided by the Company's insurance brokers.

~~765-764.~~ However, ~~t~~his evidence ~~both is insufficient to~~ corroborates the accuracy of the Company's initial forecast and demonstrates that loss and wildfire loading by Xcel's brokers ~~may not be~~ appropriately allocating risk among Xcel Energy, Inc.'s various jurisdictions.

~~766-765.~~ The Commission should also establish a symmetrical true-up for insurance costs to ensure that the Company neither over-recovers nor under-recovers its insurance costs. While true-ups should not be relied on excessively as

⁴³⁰ ALJ Report at 31, ¶ 174 (citing Ex. DOC-9 at 3 (Borden Direct)).

a substitute for accurate expense forecasting, these costs are particularly well-suited for such a mechanism. The type and nature of Xcel's coverage is not disputed by any party, is a reasonable and necessary cost of providing utility service, and is subject to substantial variation in cost. A true-up would reasonably protect ratepayers from over-paying, while also allow Xcel to recovery a necessary cost.

~~767-766.~~ The Company has not met its burden to establish that its forecasted Excess Liability Premium costs are reasonable, ~~and~~ Therefore, the Commission should reduce the Company's recoverable Excess Liability Insurance expense to ensure Minnesota customers are not subsidizing customers in other jurisdictions. be approved by the Commission as the baseline for this true-up mechanism.

11. Staff Analysis

Staff notes that the insurance true-up mechanism proposed by Xcel in rebuttal testimony was not addressed by the Department or XLI in surrebuttal. The Commission may wish to further inquire on this matter with the Department and XLI at the agenda meeting.

12. Decision Options

1086 Approve Xcel's request to recover Minnesota electrical jurisdiction insurance expenses of \$34.2 million for 2025 and \$37.2 million for 2026. (Xcel Energy)

Or

1087 Remove \$5.3 million in insurance expenses from 2025, and \$5.8 million in 2026. (Department)

1088 Approve Xcel's proposed ELI expenses for 2025 and 2026. (ALJ)

Or

1089 Remove ELI expenses from 2025 and 2026 as recommended by XLI in its trade secret recommendation.⁴³¹ (XLI)

1090 Implement a symmetrical true-up mechanism to recover actual insurance costs. (Xcel, ALJ)

CC. Property Tax

1. Issue

What amount of property tax expense should be included in Xcel's MYRP for 2025 and 2026?

⁴³¹ See Ex. XLI-8 at 22 for Trade Secret recommended reduction amounts. (LaConte Surrebuttal)

2. Xcel Energy - Direct

Xcel noted that property taxes are inevitable cost of providing service to customers. Although it may fluctuate up or down because of variables in the Minnesota Department of Revenue's (DOR) valuation process and changes in tax rates at the local level, but to a large extent increases in property taxes are largely due to investments in the Company's system. Also, Xcel disclosed that utility operating property is valued by the DOR using the methodology and formulas set forth in Minnesota Rule 8100.0300.

Xcel forecasted its property tax expense at the Minnesota Electric Jurisdiction basis as \$182.1 million and \$194.3 million in 2025 test year and 2026 plan year, respectively. Xcel presented in table 46 the property tax forecast at Minnesota Electric Jurisdictional level and total Company (NSPM) by state for 2025 and 2026.⁴³²The table shows forecasted Total Company property tax expense for the 2025 test year is \$231.2 million. For the 2026 plan year, the forecasted property tax expense is \$246.1 million.

Table 46: Forecasted Property Tax Expense (\$ Millions)⁴³³

Component	2023 Actual	2024 Forecast	2025 Test Year	2026 Plan Year
Minnesota Tax (Total Company)	\$193.6	\$199.0	\$214.0	\$228.0
North Dakota Tax (Total Company)	\$8.3	\$8.6	\$9.5	\$9.7
South Dakota Tax (Total Company)	\$5.8	\$6.5	\$7.1	\$7.5
Iowa Tax (Total Company)	\$0.2	\$0.4	\$0.6	\$0.8
NSPM (Total Company)	\$207.9	\$214.4	\$231.2	\$246.1
State of Minnesota Electric Jurisdiction	\$165.5	\$169.3	\$182.1	\$194.3

Xcel noted that, for comparison purposes, the table 46 includes the company's actual 2023 property taxes and its current 2024 forecast. Xcel disclosed that its testimony focuses on Minnesota since state of Minnesota taxes for electric and gas account for 93% of total Company property taxes. Xcel used the same variables to perform its forecast as in previous rate cases in the Company's 2016, 2019, 2020, and 2022 test year electric rate cases and in 2022 and 2024 test year gas rate cases.⁴³⁴ Xcel noted that forecasted amounts would be trued up when final property tax information is received.

⁴³² Detailed calculations of the Total Company property tax expense for 2023-2026 are provided in Exhibit51_(WTK-1), Schedules 2 through 5.

⁴³³ Ex. Xcel-51 at 3 (Kowalowski Direct).

⁴³⁴ Ex. Xcel-51 at 13 (Kowalowski Direct).

For Minnesota alone, property tax expense forecast to increase from approximately \$199.0 million for 2024 to approximately \$214.0 million for 2025. For 2026 the forecasted Minnesota property tax expense is \$228.0 million, an increase of about 6.5 percent as compared to the 2025 forecast.⁴³⁵

3. Department of Commerce - Direct

The Department disagreed with Xcel's proposed property tax expense, finding that Xcel did not adequately support its estimated increase in property tax expense of 4.37% and 6.83% MN Electric Jurisdiction (4.57% and 6.40% Total Company) for the 2025 Test Year and 2026 Plan Year, respectively, when compared to 2024 actual property tax expense as shown on Table 47.

Table 47: Xcel's Initial Filing, Property Tax Expense⁴³⁶

Year	NSPM (Total Company)	NSPM (Total Company) Year over Year % Change	Minnesota Electric Jurisdiction (Net of Interchange)	MN Electric Jurisdiction % Calculated	MN Electric Jurisdiction Year over Year % Change
2019A	\$210,872,000		\$152,699,000	0.724131	
2020A	215,534,000	2.21	154,964,000	0.718977	1.48
2021A	220,858,000	2.47	158,834,000	0.719168	2.50
2022A	216,200,000	-2.11	154,400,000	0.714154	-2.79
2023A	207,900,000	-3.84	146,400,000	704185	-5.18
2024A	221,100,000	6.35	155,700,000	0.704206	6.35
2025F	231,200,000	4.57	162,500,000	0.702855	4.37
2026F	246,000,000	6.40	173,600,000	0.705691	6.83

The Department noted that historically the Company overestimated property tax expense, resulting in MN customer refunds ranging from \$10.9 to \$21.2 million from 2020 to 2024.⁴³⁷

The Department noted that in the last rate case, Xcel overestimated its property tax each year from 2017 through 2024, with the true-up adjustment resulting to total refund of approximately \$102.5 million from 2017 to 2025. Therefore, the Department recommended the Company continue the property tax true-up mechanism during the MYRP period and Xcel not be allowed to recover any property tax expense exceeding 5% of the Commission approved amount included in the MYRP.

Based on its review of historical trends, the Department suggested that a more appropriate level of property tax expense for 2025 and 2026 of 2% instead of the 4.37% and 6.83% Xcel proposed for MN Jurisdiction increases for 2025 and 2026. The Department claimed its

⁴³⁵ Id., at 17, see also Exhibit-51_(WTK-1), Schedule 9.

⁴³⁶ Ex. DOC-23_, HDJ-D-3, Schedule 1 (Jones Direct)

⁴³⁷ Ex. DOC-23_. HDJ-D-2 for 2022 to 2024 (Jones Direct) (Xcel Response to DOC IR 115); and for 2020 to 2021 (Xcel Response to DOC IR 197 in Docket No. E002/GR-21-630).

recommended 2% increase as a reasonable midpoint between the ranges of Xcel' recent year over year changes.

4. Xcel Energy – Rebuttal

Xcel updated its initial forecast of property tax expense because of more recent information available as to several of those inputs, like recent resolution of 2025 property tax valuation with the Department of Revenue (DOR) in August 2021, including the change in effective tax rate from the 2023 rate of 2.57% used in initial forecast to the 2024 actual rate of 2.6515%. Also, Xcel received final 2025 valuations from North Dakota and South Dakota. These changes updated the initial property tax expense forecasts for 2025 and 2026 as shown on Table 48 below.

Table 48: Updated Property Tax Expense (\$ Millions)⁴³⁸

Component	2024 Actual	2024 Forecast	2025 Test Year	2025 TY Updated Forecast	2026 Plan Year	2026P PY Updated Forecast
Minnesota Tax (Total Company)	\$205.9	\$199.0	\$214.0	\$220.1	\$228.0	231.6
North Dakota Tax (Total Company)	\$8.6	\$8.6	\$9.5	8.4	\$9.7	9.4
South Dakota Tax (Total Company)	\$6.5	\$6.5	\$7.1	6.7	\$7.5	7.1
Iowa Tax (Total Company)	\$0.4	\$0.4	\$0.6	0.6	\$0.8	0.8
NSPM (Total Company)	\$221.1	\$214.4	\$231.2	235.8	\$246.1	248.9
State of Minnesota Electric Jurisdiction	\$175.4	\$169.3	\$182.1	184.2	\$194.3	195.4
Percentage increase compared to 2024 actual				5%		11.4%

Xcel noted that the increase in effective tax rate offset the reduction in valuation settlement received from DOR settlement with the net effect of increase in the 2025 property tax forecast for the State of Minnesota Electric jurisdiction from \$182.1 million to \$184.2 million.

Xcel disagreed with Department witness Jones' recommendation that 2025 property tax expense should be \$158,814,000 for State of Minnesota Electric Jurisdiction (net of Interchange) and that the 2026 property tax expense should be \$161,990,280 for State of

⁴³⁸ Ex. Xcel -51 at 3 (Kowalowski Direct).

Minnesota Electric Jurisdiction (net of Interchange). Xcel argued thus:

...disagree with her. First, her analysis focuses on an irrelevant comparison and ignores the variability of the inputs that affect the Company's property tax expense. Second, her recommended approach, which she describes as a "midpoint" among the range of recent year-over-year changes in the Company's property tax, is faulty in several ways.⁴³⁹

Xcel viewed the Department's 2% recommendation as arbitrary, arguing that there is no reasonable mathematical connection between 2% suggestion and the year-over-year changes that were alluded to by the Department.

5. Department of Commerce – Surrebuttal

The Department acknowledged that its initial recommendation on the MN Electric Jurisdiction property tax (net of interchange) amount created some confusion that resulted in an adjustment to the Department's initial recommendation when updated to be based on the Minnesota Electric Jurisdiction. Accordingly, the Department provided table 49 below, which reflects its initial and updated recommendations and necessary adjustment.

The Department recommended the updated property tax expense of \$178,908,000 for 2025, and \$182,486,160 for 2026 which also resulted in revenue requirement reductions of (\$3,192,000) and (\$11,813,840) for 205 and 2026, respectively, as shown on the table below.

Table 49: Department Corrected Property Tax Expense Recommendation for Minnesota Electric Jurisdiction and Corresponding Adjustment Amounts⁴⁴⁰

Department Recommendations and Adjustments	2025	2026
Initial Property Tax Expense Recommendation - MN Electric Jurisdiction (net of interchange)	\$158,814,400	\$161,990,820
Initial Rev Req Adjustment Recommendation	(\$3,686,000)	(\$11,609,720)
Updated MN Electric Jurisdiction Recommendation	\$178,908,000	\$182,486,160
Updated Rev Req Adjustment	(\$3,192,000)	(\$11,813,840)
Difference – Adjustment Correction	\$494,000	(\$204,120)

The Department disagreed with Xcel's claim that historical averages and year-over and year changes in property taxes are not relevant. The Department held:

⁴³⁹ Ex. DOC-23_at 11 (Jones Direct).

⁴⁴⁰ Ex. DOC-24 HDJ-S-1 (Jones Surrebuttal).

I disagree with the Company's assertion that using the historical averages and year over-year changes are not relevant. The Commission has used historical averages for several expenses in other general rate cases, including generation O&M supervision, engineering, meter-reading, employee benefit expenses, employee expenses,⁴⁴¹ bad debt expense,⁴⁴² and insurance premium expense.⁴⁴³

The Department recommended Xcel continue the true-up mechanism for property taxes as it has for the past several years, in view of the complexity involved in estimating property taxes, and the significant amount of over-recovery of property taxes returned to ratepayers since 2016. However, Xcel should not be allowed to recover property tax expense that exceeds five percent (5%) of the Commission approved amounts for the Multi-Year Rate Plan.

Based on its review, the Department recommended a (\$3,192,000) reduction to property tax expense for 2025 test year and a (\$11,813,840) reduction to property tax expense for 2026 plan year.

6. ALJ Report

The ALJ after weighing thoroughly the parties' positions aptly pointed to the difficult choices before him in deciding this case as one between a long history of biased upward forecast and an adjustment that is not a scientific axiom but mostly rests on flawed variables and assumptions. Thus, the choice and difficulty in projecting what should be appropriate property tax expenses underscores the need to have a true-up mechanism for this type of expenses.

As it is mandated by law, when there is doubt as to reasonableness to resolve a matter in favor of the consumer, the ALJ adopted the Department's recommended adjustment to the Company's property tax expense for 2025 and 2026, as well as continue Xcel's property tax true-up.⁴⁴⁴

ALJ Found:

777. The Company has certainly established that these expenses are inherently difficult to forecast. The Company cannot be faulted for a lack of precise accuracy in its forecasts. That said, the Department is right to be concerned about the recurring over-forecasting of property tax expenses by the Company.

778. While the difficulty of forecasting property tax expense explains large discrepancies between forecasted figures and actual expenditures, one would expect a reasonable forecast to be as likely to under-project actual expenses as frequently as it

⁴⁴¹ Ex. DOC-24 at 12 (Jones Surrebuttal).

⁴⁴² Id.

⁴⁴³ Id.

⁴⁴⁴ ALJ Report 781-782.

over-projects them. That is obviously not what has happened with this expense category.

It is concerning that the forecast has missed the mark in the same direction for eight consecutive years, especially when the direction it misses in is the one that results in customers initially over-paying for property taxes. While the Company points to under-forecasting in its gas jurisdiction in 2024, this single contrary data point is of limited persuasive value.

779. In the face of this trend, and the burden to prove the reasonableness of the rate request rests with the Company, the Department does not need to identify a specific shortcoming in the forecasting methodology or assumptions. It is for the Company to explain either that its forecasting methodology has been corrected, or that the trend observed by the Department was due to factors unlikely to recur.

780. The Company has raised valid concerns with the Department's recommendations. There is no principled basis to believe the local effective tax rate will continue to decrease in 2025 and 2026, an implicit assumption of the Department's recommendation.

781. In sum, the choices presented in this case between a forecast that history has shown to be upwardly biased and an adjustment that rests on a flawed assumption. This choice, as well as the difficulty in projecting property tax expenses, underscores the importance of the true-up for this expense category.

782. As doubt as to reasonableness must be resolved in favor of the consumer, the Department's recommendation is the legally mandated choice on this record.

783. The Commission should continue Xcel's property tax true-up and adopt the Department's recommended adjustment to the Company's property tax expense for 2025 and 2026.

7. Staff Analysis

The parties generally agree that the Commission should allow Xcel to true-up property tax expense. However, the Department recommended a 5% limit recovery and that Xcel should not be allowed to recover property tax expense that exceeds five percent (5%) of the Commission approved amounts for the Multi-Year Rate Plan.

The record shows that Xcel has been over-recovering property tax expense from customers up to \$102.5 million since 2017 through 2024, meaning the Company's forecast consistently exceeded actual tax expense, requiring refunds to customers through true-up mechanism. The Department raised this as a significant concern. Staff suggests the Commission engage in a more detailed discussion with the parties at the hearing. Xcel maintained that property tax expenses vary year-over-year because various factors that affect property tax forecast and these factors are out the Company control.

Staff supports the ALJ's Findings and recommendation that the Commission continue Xcel's property tax true-up and adopt the Department's recommended adjustment to the Company's property tax expense for 2025 and 2026. Staff notes the ALJ recommending the Commission adopt the Department's recommendations by implication accepting the 5% limit to recovery of property tax expense.

8. Decision Options

- 1091 Allow Xcel to recover its updated forecast Minnesota Electric Jurisdictional property tax expense of \$184.2 million and \$195.4 million for the 2025 Test Year and 2026 Plan Year, subject to a true-up mechanism. (Xcel)
- 1092 Deny Xcel's request to recover its updated forecast Minnesota Electric Jurisdictional property tax expense of \$184.2 million and \$195.4 million for the 2025 Test Year and 2026 Plan Year, subject to a true-up mechanism. (Department, ALJ)
- 1093 Adopt for Xcel's recovery the Department's updated forecast Minnesota Electric Jurisdictional property tax expense of \$178.9 million and 182.5 million for the 2025 Test Year and 2026 Plan Year, subject to a true-up mechanism. (Department, ALJ)
- 1094 Allow Xcel to continue the property tax expense true-up mechanism. (Xcel, Department, ALJ)
- 1095 Deny Xcel recovery of property tax expense that exceeds five percent (5%) of the Commission approved amounts for the Multi-Year Rate Plan. (Department, ALJ)
- 1096 Allow Xcel recovery of property tax expense that exceeds five percent (5%) of the Commission approved amounts for the Multi-Year Rate Plan. (Xcel)

DD. Distribution Capacity Investments

1. Issue

Should the Commission approve Distribution Capacity Investments fully in base rates?

2. Summary

Xcel Energy proposed an increase to Distributed Capital Investments for 2025 Test Year and 2026 Plan Year period. The Company attributed the 2026 surge to the timing of the 12 large discrete projects, 9 of which are expected to be in service in 2026. The Company explained these investments were driven by system needs and had already been reviewed to the IDP Annual Update. The Company requested \$106.6 million in 2025 and \$206.2 million in 2026, but \$15.2 million from Hosting Capacity has already been removed as part of a settled issue.

Table 50. Distribution Capacity Investments for 2025 and 2026⁴⁴⁵

Capacity Investments	2025 Budget	2026 Budget
Discrete Capacity Projects	\$81.1M	\$150.5M
Routine Capacity Reinforcements	\$11.1M	\$16.9M
Feeder Load Monitoring Program	\$7.3M	\$15.5M
Grid Reinforcement Program	\$7.1M	\$18.2M
Hosting Capacity	\$0.0M	\$0.0M
Total	\$106.6M	\$191.0M

3. Xcel Energy – Direct

Xcel Energy’s proposed Capacity projects are:

Elm Creek Feeder Project will support an increase in customer loading in Maple Grove, MN. Underground 34.5 kV feeder will be extended to mitigate multiple feeder contingency risks. The project is expected to be completed in 2026. The project is forecasted to have plant additions of \$14.9 million in 2026.

Inver Hills Project will install two 115/13.8 kV 70 MVA transformers in the Inver Hills Substation located in Inver Grove Heights, Minnesota. It will also require the installation of new cable duct, which will allow the addition of up to 10 new feeders. This project will mitigate a significant transformer contingency risk at the nearby Rich Valley Substation and multiple feeder contingency risks. It will also allow for future load growth in the area. The project is expected to be completed in 2026. The project is forecasted to have total plant additions of \$13.9 million in 2026.

Osseo Feeders Reinforcement Project is intended to reinforce all remaining feeders at the Osseo Substation located in Maple Grove, Minnesota. This will require installing new duct bank and parallel cables for the feeders. Additionally, some other work will be needed, such as upgrading feeder reactors within the substation. This project will mitigate several contingency risks, as well as resolve three existing overloads. The project is expected to be completed in 2025. The project is forecasted to have total plant additions of \$11.4 million in 2025.

Prior Substation Project will install a new 115/13.8 kV 28 MVA transformer and a new feeder in the Prior Substation located in St. Paul, Minnesota. Upgraded substation protective devices will also be installed. This project will mitigate a contingency risk on the transformer when other system elements are out of service. The new feeder will solve an overload risk and two contingency risks. The new transformer will also allow the future addition of up to seven more

⁴⁴⁵ Xcel–36 at 89 (Mensen Direct)

feeders. The project is expected to be completed in 2026. The project is forecasted to have total plant additions of \$8.7 million in 2026.

Birch Area Substation Project involves the construction of a new substation, the Birch Area Substation, near White Bear Lake, Minnesota. This new substation is needed to mitigate contingency risks on nearby feeders due to the limited switching capability available in the area. As the nearby 34.5 kV substations have limited expansion capabilities, a new substation is needed to mitigate these risks. This new Birch Area Substation will include two new 70 MVA 69/34.5 kV transformers and two new 34.5 kV feeders. This project was previously scheduled to be in-service earlier but was moved to 2026 to allow the scope to be revisited and integrated with both distribution and transmission planning long-range plans for the area. The project is expected to be completed in 2026. The project is forecasted to have total plant additions of \$8.6 million in 2026.

Villard Area Substation Project will install a new substation with a 69/12.47 kV 14 MVA transformer and new feeder, as well as retire the existing Westport Substation, located in Westport Township, Minnesota. The new substation, the Villard Area Substation, is planned to also be in Westport Township, Minnesota, which is to the east of the existing Villard Substation. The project is needed to mitigate contingency risks at both Villard and nearby Westport substations, as well as a heavily loaded feeder at Westport. The project is expected to be completed in 2026. The project is forecasted to have total plant additions of \$8.6 million in 2026.

Dayton Area Substation Project is to install a new 115/34.5 kV 70 MVA substation with two feeders in Otsego, Minnesota. Originally this project was intended to be located in Dayton, Minnesota, but as the project scope developed further, the location was shifted. This project will mitigate contingency risks and an overload on nearby feeders at the Hassan Substation. The project is expected to be completed in 2026. The project is forecasted to have total plant additions of \$8.1 million in 2025-2026.

West Byron Substation Project is a single bank, single feeder substation located in Byron, Minnesota. This project involves adding a second 14 MVA 69/12.47 kV transformer and an additional feeder. Existing load will be transferred to the new feeder, resolving overload and contingency risks in the area. All existing substation equipment will also be reinforced to capacity standards. The project is expected to be completed in 2026. The project is forecasted to have total plant additions of \$7.3 million in 2026.

Stockyards Project will install an additional 115/13.8 kV 50 MVA transformer in the Stockyards Substation located in South Saint Paul, Minnesota. The capacity of existing feeders will also be reinforced with parallel feeder cables. This project is needed to mitigate transformer contingency risk and will also mitigate numerous feeder overloads and contingency risks. The project is expected to be completed in 2025 and is forecasted to have total plant additions of \$7.2 million in 2025.

Albany Transformers Project will install two new 69/12.47 kV 14 MVA transformers at Albany Substation located in Albany, Minnesota. This project is needed to mitigate contingency risks,

an overload, and separate the Company's equipment from the joint substation with Great River Energy. The Company currently has one 14 MVA transformer here; this project will create a separate substation high side on the western side of the existing joint substation. The project is expected to be completed in 2026. The project is forecasted to have total plant additions of \$6.9 million in 2026.

Montrose Reinforcement Project will install a second 69/12.47 kV 14 MVA transformer and feeder at Montrose Substation, located in Montrose, Minnesota. The project is needed to mitigate contingency risks at Montrose and nearby Waverly substations, as well as relieve heavily loaded feeders and a transformer at the two substations. The project is expected to be completed in 2026. The project is forecasted to have total plant additions of \$6.5 million in 2026.

Midtown Feeder Project will install a new feeder from the Midtown Substation located in Minneapolis, Minnesota. The project will mitigate several feeder overloads and contingency risks in the South Minneapolis area. The project is expected to be completed in 2025. The project is forecasted to have total plant additions of \$6.2 million in 2025.

4. Joint Intervenors – Direct

Joint Intervenors recommended that the 2025 and 2026 capacity should be either capped or deferred until it can be approved in the next IDP. This would ensure that customers pay only for investments demonstrated to be necessary and least cost.

5. Xcel Energy – Rebuttal

Xcel Energy responded to Joint Intervenors by pointing out that the project has already gone through the Company's annual planning process and has been identified in either the Company's 2023 IDP or 2024 IDP Annual Update. With these projects being subject to the Company's annual planning processes, alternatives, project costs and risk analysis have all been considered.

6. Joint Intervenors – Surrebuttal

Joint Intervenors made no clear recommendation on Distribution Capital Investment in Surrebuttal. Joint Intervenors appreciated the important work the third-party evaluation required under Order Point 46 of the Commission's January 13, 2025 Order in Docket No. E-002/M-24-27. The Company should incorporate equity directly into its distribution investment planning and prioritization tools that it uses in its annual planning process.

7. Administrative Law Judge Report

The ALJ found that it is not uncommon for spending on capacity projects to fluctuate from year to year. Capacity projects are planned based on assessment of system growth, risk of overloads, and system's ability to handle single contingency events. The ALJ Found:

789. The Company has met its burden to demonstrate the reasonableness of its distribution capacity investments.

790. The Commission should allow recovery for Xcel's distribution capacity investments as requested by the Company.

8. Staff Analysis

Staff concurs that Distribution Capacity Investment costs can fluctuate from year to year and just because they fluctuate a cap on spending is not needed.

9. Decision Options

1097 Approve Xcel Energy's proposed Distribution Capacity Investments as filed, with removing the Hosting Capacity budget, for a total of \$106.6 million in 2025 and \$191 million in 2026. (Xcel, ALJ)

1098 Approve Xcel Energy's proposed Distribution Capacity Investments for 2025 projects as filed and cap 2026 projects pending an IDP showing on need, timing, and least-cost alternatives. (Joint Intervenors)

EE. Distribution Targeted Undergrounding

1. Issue

Should the Commission approve Xcel Energy's proposed Distribution Targeted Undergrounding?

2. Xcel Energy – Direct

Xcel Energy proposed Targeted Undergrounding program is a new initiative to convert the most unreliable overhead distribution lines to underground infrastructure, targeting segments where customers have experienced multiple sustained power interruptions within a rolling 12-month period. The program is in its initial phase during the 2025-2026 MYRP period, with approximately one mile planned for undergrounding in 2025 and three miles in 2026. The program has a cost of \$2.3 million included in the 2025 Test Year and \$6.7 million in the 2026 Plan Year.

3. Office of Attorney General – Direct

The OAG recommended that, if the Commission approves the proposal, project costs should be capped at \$1.5 million per mile, resulting in \$1.5 million in 2025 and \$4.5 million in 2026. The OAG also recommended that the Company explain the process it uses to identify and determine feeders to target. The OAG requested Xcel Energy to provide progress of targeted underground work that has been identified. The OAG further requested that Xcel provide an update on its limit implementation plan to show the planned and actual costs and construction work.

4. Joint Intervenors – Direct

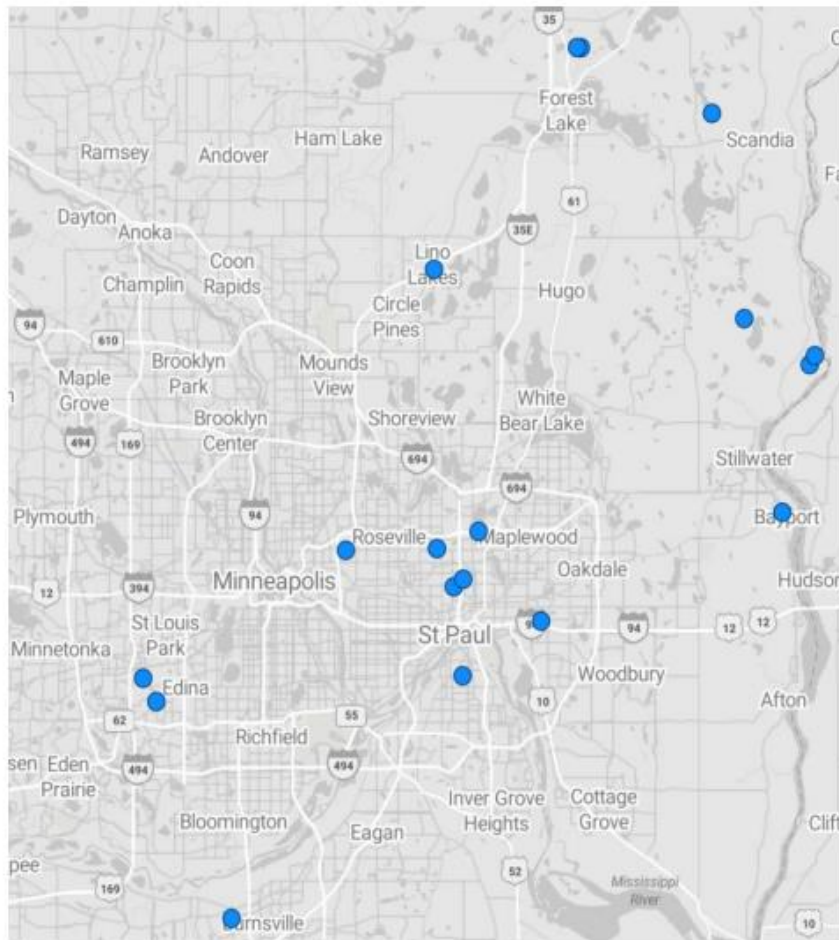
Joint Intervenors commended Xcel Energy for bringing forward proposals that address disparities in reliability. However, they recommended that these proposals require further discussion and justification in the upcoming IDP before Target Underground should be considered for cost recovery. Joint Intervenors were also concerned about community impacts, including traffic, property and neighborhood disruptions. They further recommended that Xcel Energy consider operational changes that could improve equity and reliability outcomes for low-income communities in storm response and other activities.

5. Xcel Energy – Rebuttal

Xcel Energy did not recommend capping costs on a per mile basis because there was a wide difference in costs between locations and construction types. Xcel stated that it filtered out non-Minnesota locations when determining which areas to prioritize for target underground. Current project sites are shown in the figure below.

Figure X. Potential Targeted Underground Projects Map⁴⁴⁶

⁴⁴⁶ Xcel-35 at 12 (Mensen Rebuttal)



In response to Joint Intervenors the Company evaluated several alternative approaches before determining that Target Underground was the most effective strategy. The primary alternative included: Overhead line rebuilds, Fault Location, Isolation, and Service Restorations, enhance vegetation management, and Targeted Underground. After evaluation Target Undergrounding offered the most comprehensive solution. Xcel Energy stated that it had always worked to minimize the impacts of its construction projects.

Xcel Energy did not oppose evaluating potential operational changes. The Company's current approach to storm response and outage restoration prioritizes restoring the largest number of customers as quickly as possible, as well as restoring certain key customers (public safety, hospitals, etc.). The Company noted that changes to this approach could benefit customers in areas that have experienced longer outages, but potentially at the price of a larger number of customers remaining without power for longer.

6. Office of Attorney General – Surrebuttal

OAG continued to recommend capping costs at \$1.5 million per mile as the Company did not provide updated forecasts for 2025 to support their proposed costs.

7. ALJ Report

ALJ found that the Company provided sufficient evidence that distribution targeted undergrounding will yield reliability and other benefits. Capital true-up does protect customers and prevent customers paying for costs that haven't been incurred. The Company has adequately justified its estimates, and explained why estimates, based on the nature of projects planned for 2025 and 2026. ALJ found:

805. The Commission should approve the Company's proposed 2025 and 2026 investment in the targeted undergrounding program, subject to Xcel's capital true-up.

8. Office of Attorney General – Exceptions

OAG disagreed with the ALJ's finding that the true-up will protect customers from paying for projects that are too expensive, under the capita true-up mechanism Xcel proposed, Xcel will only refund customers if its aggregate actual capital-related revenue requirement falls below approved revenue requirement in this rate case. That means that if Xcel's actual capital expenditures for targeted undergrounding do end up being lower than Xcel's request in this case, Xcel can avoid the capital true-up refund by making more capital expenditures in other areas of the business. Requested modified finding:

796. The Company presented evidence that the cost for undergrounding a particular feeder can vary greatly depending on the location of the feeder, the type of feeder, and the construction method. The Company **demonstrated argued** that the undergrounding costs estimates cited by the OAG in the 2024 Service Quality Report (SQR) are for a select group of undergrounding projects that do not account for the different construction requirements of targeted undergrounding program projects. However, Xcel's own discovery response concedes that the projects discussed in its rate-case testimony are for the same areas identified in its service-quality Dockets. The Company also stated that the 2025 and 2026 rate case budgets were based on historical undergrounding costs and added cost allowances to provide for construction of secondary service lines, customer service drops, and construction in urban areas. The Company's unspecified allowances do not change the need for a cost cap to protect ratepayers from an overstated capital budget.

797. The Company provided evidence in Rebuttal Testimony about the location of potential targeted undergrounding projects already selected for design and construction. These potential projects comprise over 180 projects distributed across 59 cities or townships in multiple regions of the service territory, with a concentration in the southeast metro and Saint Paul areas. But the Company failed to update the budget forecast for 2025 to reflect actual capital expenditures and capital additions. Nor did the Company identify the locations it is prioritizing for targeted undergrounding in response to the OAG's direct

testimony. Xcel failed to provide more specifics in rebuttal even though it was already working on an update for the Integrated Distribution Plan that was to be filed November 1, 2025.

798. Further, the locations and feeders Xcel identifies do not explain how the Company's project plans for one mile of undergrounding in 2025 and three miles in 2026¹⁴² led to such large project costs. There are various factors that will determine which projects go ahead first, including coordination with landowners to secure easements, navigating multiple agency permitting processes, managing construction schedules around weather conditions, and addressing site-specific design constraints. But the Company has not outlined which of the 1,157 miles of overhead distribution line that it identifies as feeder locations will be undergrounded.

801. The Company has provided sufficient evidence to establish that its distribution targeted undergrounding will yield substantial reliability and other benefits to customers but has not provided a cost-benefit analysis showing net ratepayer benefits. The question to be resolved here is whether the cost estimates presented by Xcel are reasonable and justified by the benefits to consumers. Xcel has not provided sufficient evidence on either point, and the significant doubts raised about its cost estimates show that a cost cap is needed to protect ratepayers.

803. System reliability is one of the core objectives of utility regulation. The Company has shown that its distribution targeted undergrounding will lead to significant improvement in reliability. It has not shown, however, that the benefits justify its requested costs or that its requested costs are accurate.

804. Further, the Company has not adequately justified its estimates, ~~and or~~ explained why the estimates, based on the nature of the projects planned for 2025 and 2026, exceed the more general estimates that the OAG compares them to.

805. The Commission should **not** approve the Company's proposed 2025 and 2026 investment in the targeted undergrounding program, subject to Xcel's capital true-up.

Finally, because the capital true-up does not protect ratepayers from overbudgeting for targeted undergrounding, Findings 799 and 802 should be modified as shown:

799. The Company also argues that a cost cap is unnecessary because the targeted undergrounding program is a capital program and subject to the Company's proposed capital true-up mechanism. However, the capital true-up does not protect ratepayers from overbudgeting on targeted undergrounding because the Company can spend more in other areas to offset any underspending of the targeted undergrounding budget used in this case.

802. While the capital true-up does provide some protection to customers for the aggregate capital costs in a utility's test year, it does not incentivize cost containment on the project level or protect ratepayers from cost overruns for specific projects. ~~is not a complete solution if the costs continue to increase.~~ The true-up ~~does prevent customers from paying for capital costs not actually incurred, but~~ it does nothing to protect customers from paying the actual costs for a project that is simply too expensive. ~~Here, however,~~ ~~†~~The Company has not met its burden to prove that the costs in this proceeding are reasonable for these projects or even likely to be incurred in the test years. The OAG's proposal to cap the costs of these projects is reasonable on this record. and should be included in rates.

9. Joint Intervenors – Exceptions

Joint Intervenors disagreed with the ALJ report that “The question to be resolved here is whether the cost estimates presented by Xcel are reasonable and justified by the benefits to consumers.” This conclusion is incorrect because it fails to recognize the essential role of IDP in justifying the Company's proposed investments. The Commission should require full discussion and justification of the Company's targeted undergrounding plans and budgets through the IDP before it approves cost recovery for these investments.

10. Staff Analysis

Staff supports the OAG's exceptions to the ALJ's report that recommend denial of the targeted undergrounding program. This program originated from Docket 24-27, Xcel Energy's 2023 SRSQ Report. In that proceeding, the Company identified targeted undergrounding as a potential solution to address disparities in reliability outlined in a study from the University of Minnesota.⁴⁴⁷ In its January 13, 2025 Order the Commission required Xcel to “perform additional analysis ... prior to developing a proposal for targeted undergrounding or enhanced vegetation management.”⁴⁴⁸ However, Xcel had already requested funding for a targeted undergrounding proposal in the present rate case, which was filed November 1, 2024. There is a disconnect between the Commission's guidance in the SRSQ Docket and Xcel's proposal in the rate case. Xcel seems to have jumped ahead of the further analysis required by the Commission in the SRSQ Order, which was intended to determine whether targeted undergrounding is the most appropriate and cost-effective method to reduce outages in underserved communities.

In the Company's existing Integrated Distribution Plan (IDP) stakeholders have developed an extensive record on whether to proceed with additional undergrounding. Staff recommends the Commission wait to approve funding for targeted undergrounding until after further

⁴⁴⁷ Xcel Energy Annual Petition and Report, April 1, 2024, Docket E002/M-24-27, pp. 109-111

⁴⁴⁸ Docket E002/M-24-27, January 23, 2025, Order Accepting Reports and Setting Additional Requirements, Order Point 38.

guidance in the 2025 IDP. Accordingly, Staff agrees with the OAG’s analysis and exceptions to deny cost recovery for the targeted undergrounding proposal at this time.

11. Decision Options

1099 Approve Xcel Energy’s Distribution Targeted Undergrounding as proposed for \$2.3 million in 2025 Test year and \$6.7 million in 2026 plan year, subject to Xcel’s capital true-up. (Xcel, ALJ)

1100 Approve Xcel Energy’s Distribution Targeted Undergrounding with a \$1.5 million per mile cap. (Office of Attorney General)

1101 Reject Xcel Energy’s Distribution Targeted Undergrounding as proposed. (Joint Intervenors)

FF. Virtual Power Plants

1. Issue

Should the Commission approve Joint Intervenors’ proposal of Virtual Power Plants and make contingency of AGIS funding?

2. Summary

A Virtual Power Plant (VPP) was an aggregation of distributed energy resources—such as smart thermostats and water heaters, residential batteries paired with rooftop solar, EV managed charging, and flexible C&I loads—coordinated to balance supply and demand and deliver utility-grade grid services. A VPP program could have served as a customer-facing use case that supported the need for AGIS (Advanced Distribution Management System) investment proposed in this rate case.

3. Joint Intervenors – Direct

Joint Intervenors supports Xcel Energy adopting VPP even though they do not currently have VPP, Joint Intervenors believes Xcel has the capabilities. Distributed Energy Resource Management System (DERMS) is software that allows Xcel Energy to monitor, manage and dispatch distributed energy resources (DERs). DERMS is the control and coordination platform that allows Xcel Energy to make VPP possible. Xcel Energy has contracted with Itron to provide Aggregator DERMS or A-DERMS, which is a software as a service platform, based on Itron’s IntelliFLEX product suite. Joint Intervenors recommended VPP should meet the following conditions:

- Multi-technology: Stacks customer devices: BYO smart thermostats/water heaters, residential batteries (including solar+storage), managed EV charging, and flexible C&I loads.
- Simplifies enrollment: one-click/QR enrollments, standard offers through retailers/installers, and aggregator channels.

- Uses pay-for-performance contracts with third-party aggregators, with availability/dispatch metrics and settlement tied to delivered kW/kWh.
- Targets distribution needs: procure VPP capacity at substations/feeders nearing thermal limits to defer capex.
- Centers equity and resilience: set carve-ins for low- and moderate-income customers, enable inclusive utility investment options, and support backup power for medically vulnerable households.
- Integrates planning and M&V: include VPPs in IRP/IDP portfolios with transparent measurement, verified peak kW impact, and T&D deferral accounting. (DOE's Liftoff appendices provide practical menus on enrollment, standardization, planning, and market integration.)⁴⁴⁹

4. Xcel Energy – Rebuttal

Xcel Energy disagreed with Joint Intervenors first by pointing out that AGIS does not equal VPP. Conditioning AGIS funding on Xcel creating VPP program is inappropriate since VPPs require additional software, internal labor, and other associated costs. DERMS is separate from AGIS and DERMS will be addressed in 2025 Integrated Distribution Plan (IDP). The Company's Distributed Capacity Procurement (DCP) is better integrated with planning and capable of faster, larger-scale deployment when compared to VPP.

5. Joint Intervenors – Surrebuttal

Joint Intervenors doesn't propose a specific VPP design in this rate case. Joint Intervenors recommended that Excel Energy build on capabilities already being deployed through AGIS and DERMS and explore the development of a VPP program to deliver system benefits. Xcel Energy can leverage AGIS and DERMS investments by proposing a VPP in future proceedings.

6. Administrative Law Judge

ALJ Found that VPPs are an intriguing concept that could benefit customers, however, Excel Energy has met their burden to show that recovery of its AGIS investment is appropriate. ALJ Found:

816. The Commission should not adopt the Joint Intervenors' proposal with respect to VPPs.

7. Joint Intervenors – Exceptions

Joint Intervenors disagree with ALJ Report as it suggests further consideration in other forums and recommends rejection of the Joint Intervenors' proposal. Joint Intervenors encourage the

⁴⁴⁹ JIN-1 at 40-45 (Kenworthy Direct)

Commission to require Xcel Energy to take advantage of well-established opportunities like VPPs that can improve cost-effectiveness and realize additional benefits for ratepayers. Joint Intervenor urges the Commission to make similar findings in this rate case and require Xcel to move forward with behind-the-meter VPP implementation in a separate proceeding.

8. Staff Analysis

Staff agrees with the ALJ that conditioning approval of the specific AGIS investments proposed in this rate case on the Company initiating a VPP program is not appropriate. However, Staff does concur with JIN that Xcel could be doing more to maximize its AGIS investments and more to provide transparency on how they are used and on the total lifetime cost of grid modernization investments. As Staff highlighted in the initial rate case acceptance, Xcel is requesting \$30.3 million for 2025 to 2026 for upgrades to its ADMS, just 5 years after its initial ADMS deployment was completed. The Commission certified the initial ADMS deployment in 2016 under Minn. Stat. 216B.2425, with the Company indicating a three-year cost of \$27 million. No estimates for the total lifetime deployment were included as part of that request, although the Company indicated it would incur additional expenses to deploy the ADMS. As of the end of 2023, the last year for which Xcel submitted an ADMS report, the Company has spent over \$57.4 million, over twice the initially indicated amount. In its 2025 Integrated Distribution Plan (IDP) the Company indicated it anticipates spending an additional \$31.9 million on from 2027 through 2029 on ADMS. All told, Staff estimates ADMS spending could reach nearly \$120 million, far more than the initial investment outlined in 2016.

Information on ADMS implementation and future plans has been fractured across multiple filings and proceedings, including the initial certification request, annual ADMS reports in the TCR Docket, rate cases, and Xcel's IDP. Staff will have recommendations in Xcel's forthcoming IDP around consolidating information, but in the present proceeding makes two recommendations for future rate cases to ensure the Commission is receiving complete information on the scope and scale of grid modernization investments. First, Staff recommends requiring the Company to provide the forecasted lifetime budget for multi-year grid modernization investments in future rate cases. Second, Staff recommends requiring a description of any future associated investments outside the scope of the current rate case that will be needed to fully implement the proposed grid modernization technology.

9. Decision Option

- 1102 Require Xcel Energy to adopt the Joint Intervenor's proposed Virtual Power Plants. (Joint Intervenor)
- 1103 Reject Joint Intervenor's proposed Virtual Power Plants. (Xcel, ALJ)
- 1104 Require Xcel to include the forecasted lifetime budget for multi-year grid modernization investments in future rate cases and a description of any future associated investments outside the scope of the current rate case that will be needed to fully implement the proposed grid modernization technology. (Staff)

GG. Equity Considerations in Distribution Planning

1. Issue

Should the Commission require Xcel Energy to include Equity Consideration in Distribution Planning?

2. Xcel Energy – Direct

Xcel Energy doesn't recommend formalizing definitions in this rate case, and suggested the Commission have a docket to define equity definitions across all utilities. Xcel opposed rate design changes as the focus should be on customer affordability and equitable energy. Xcel continued to recommend a focus on assistance programs that reduce bills for customers that are eligible and supports reasonable expansion.

3. Joint Intervenors – Direct

Joint Intervenors argued the Commission and Xcel Energy should integrate equity considerations into capital investments, operational practices and budgeting, prioritization, and rate setting, so energy insecure households are not the same most likely impacted by grid outages. Affluent households can buffer outages with battery backup, generator backup or temporarily relocate, that low-income households cannot. Joint Intervenors recommended the Commission require Xcel to conduct equity-weighted Interruption Cost Estimate (ICE) 2.0 analysis and report annually on how distribution investments reduce impacts on underserved communities.

4. Xcel Energy – Rebuttal

Xcel Energy pushed back on Joint Intervenors' suggestions that the Company ignores equity in distribution planning. Xcel also disagrees that they prioritize investment in affluent neighborhoods. Xcel Energy does not oppose evaluating operational changes to storm response but notes that prioritizing restoring fewer customers first could leave more customers without power longer.

5. Joint Intervenors – Surrebuttal

Joint Intervenors recommended Xcel Energy to take steps to ensure that the insights generated through the Company's engagement efforts and the SRSQ evaluation translate into prioritization criteria in the annual planning process that elevate projects serving disadvantage communities. Joint intervenors agreed any new planning requirement must be clearly defined and understands the Company has historically applied ICE on the system-wide basis. Joint Intervenors highlighted that the ICE calculator now contains tools that can support more equitable planning and by incorporating these aspects of ICE into benefit-cost analysis can help ensure investments proposed in future Dockets could align better with Minnesota's equity objectives.

6. Administrative Law Judge

ALJ Found:

827. No change to the Company's distribution planning or budget should be ordered in this proceeding. Distribution planning is a complex process that occurs through separate Dockets. Attempting to prescribe requirements related to one set of concerns, even if those concerns are well-founded, would at best reflect an incomplete analysis of the many facets of distribution planning, and at worst, circumvent the IDP process and the separate Dockets in which it occurs. This is especially true when these same concerns are simultaneously being addressed in the SRSQ Docket.

828. Further, if the Commission were inclined to adopt the Joint Intervenors' recommendations, the record here would not support a sufficiently precise directive to the Company due to the lack of monetary quantification for community vulnerability factors.

829. Also, no change to the Company's operational protocols for storm response and other emergency response actions should be ordered here. This rate case addresses the adequacy of the Company's showing that costs are incurred reasonably and prudently. Specific operational changes, even if well-intentioned, would be more appropriately addressed in the SRSQ Docket.

830. The Commission should take the Joint Intervenors' concerns seriously and continue its important work in the SRSQ Docket but, in this proceeding, the Commission should not adopt the Joint Intervenors' recommendations with respect to equity considerations in distribution planning.

7. Joint Intervenors

Joint Intervenors disagreed with the ALJ Report's conclusion that "the record here would not support a sufficiently precise directive to the Company due to the lack of monetary quantification for community vulnerability factors." Commission require Xcel to make three key reforms:

- Establish equity-informed prioritization criteria for distribution investments. The Commission should require Xcel to develop and implement systematic criteria that prioritize investments addressing Documented service disparities. The Company should weight these criteria appropriately in its distribution project scoring and prioritization processes.
- Integrate equity requirements into the IDP process. The Commission should require Xcel to demonstrate in its IDP filings how equity considerations will be systematically incorporated into distribution planning and investments.

- Implement transparent reporting on equity outcomes. The Commission should require Xcel to report on reliability improvements and infrastructure investments by environmental justice area, income level, and racial composition in its Safety, Reliability, and Service Quality annual reports, just as the Company reports on reliability or other dimensions of utility performance. This reporting should demonstrate whether rate-funded investments are systematically addressing Documented disparities or perpetuating inequitable service patterns.

8. Staff Analysis

Staff supports implementation of equity criteria in Xcel's planning prioritization process. JIN presented evidence of how two Michigan utilities have successfully implemented this in their own distribution planning processes, and Staff agrees that Xcel should be able to develop a similar methodology that incorporates equity criteria without impacting engineering, safety, or reliability decisions. For example, if Xcel was deciding between two projects with equal risk and cost, but one was in an underserved community, equity criteria could serve as a tie breaker. Staff recommends that the Commission require Xcel to develop equity criteria to incorporate into its distribution planning process in the current proceeding, with details to be developed in its Integrated Distribution Plan. Members of JIN have raised similar issues in the Company's 2025 IDP, and Staff believes the Commission could make a high level finding here and develop the specifics in the IDP Docket which is expected to be heard later this summer.

9. Decision Options

1105 Require Xcel Energy to include Equity Consideration in Distribution Planning. (Joint Intervenors)

1106 Allow Xcel Energy to continue their current Distribution Planning. (Xcel)

1107 Require Xcel to develop criteria for its project prioritization process with respect to equity considerations in distribution planning, similar to the processes adopted by DTE Electric and Consumers Energy. The Company shall develop an initial framework, in consultation with stakeholders, and file it with its 2027 IDP due November 1, 2027. (Staff)

HH. Equity Nox Tracker

1. Issue

Should the Commission require Xcel Energy to implement a NOx Tracker?

2. Xcel Energy – Direct

Xcel Energy proposed a NOx tracker to comply with the Environmental Protection Agency's "Good Neighbor Plan" (GNP). The GNP is a program set up by the EPA with a goal to limit NOx

emissions by setting NOx allowances for fossil fuel-fired power plants in subject states and allowing for buying and selling NOx allowances between entities.

Currently the GNP has been stayed by the U.S. Supreme Court and the EPA, which prohibits the EPA from enforcing the rule, as 2 different court challenges are going through the courts. It is unknown if/when the EPA will enforce the GNP. Xcel Energy estimates if GNP goes into effect the Company will have to curtail 20-30 percent or acquire allowances to cover the 20-30 percent. The Company estimated implementation of GNP would cost \$18 million to \$40.5 Million each ozone season⁴⁵⁰.

3. Department of Commerce – Direct

The Department agreed with the NOx tracker as proposed with the uncertainty on whether the GNP would be implemented. The Department also recommended that the Company be required to provide adequate support for NOx allowances and curtailment expenses in annual compliance filing.

4. Xcel Energy – Rebuttal

Xcel Energy appreciated the Department's recommendation and agreed to provide support for any expenses added to tracker in its July 1 Annual Compliance Filing.

5. Department of Commerce – Surrebuttal

The Department considered this issue resolved after the Company agreed to provide support for expenses added to the tracker in compliance filing.

6. Administrative Law Judge

The ALJ Found:⁴⁵¹

845. The Commission should approve the Company's request to establish this requested tracker subject to the reporting requirements recommended by the Department.

7. Resolution

Xcel Energy will implement a NOx Tracker and provide support for related expenses in Annual Compliance Filing.

⁴⁵⁰ Xcel-17 at 115-116 (Halama Direct)

⁴⁵¹ ALJ Report at 134

8. Decision Option

1108 Approve Xcel Energy's proposed NOx Tracker and require Xcel to provide support for related expenses in annual compliance filings. (Xcel, Department)

1109 Reject Xcel Energy's proposed NOx Tracker.

II. Classification of AMI Meters and Equipment

1. Issue

Should the Commission approve Xcel Energy's updated cost allocation for AMI meters?

2. Summary

AMI meters currently are recovered through the Transmission Cost Recover (TCR) rider. AMI meters are recovered as customer and demand related costs. Xcel proposed in TCR that AMI meters be recovered 100 percent customer related. The justification is the old meter was recovered as customer related costs.

3. Office of Attorney General – Direct

The OAG proposed that AMI meters be cost allocated one-third customer-related, one-third energy-related and one-third demand-related. The OAG argued that AMI meters should be treated differently than old style meters because of their capabilities. AMI meters can provide a range of energy- and demand-related benefits such as more effective load management, reduced line losses, automatic power outage detection, restoration capabilities, the ability to implement time-of-use rates, reduced meter reading costs, and more efficient integration of electric vehicles and renewables.

4. Xcel Energy – Rebuttal

Xcel Energy disagreed with the OAG allocation recommendation, as meters are customer based and should be customer cost related. Xcel based its view on cost causation. The Costs of AMI meters is driven by the number of meters needed to be installed. Xcel Energy's C12WM allocator is the best method to allocate costs of AMI meters because it determines the total meter cost per class by deriving weightings for each class that are based on actual cost of installing a meter at a customer premise.

5. Xcel Large Industrials – Rebuttal

XLI recommended rejecting OAG’s proposed AMI meter classification. It noted that states commissions in Georgia, Florida, North Carolina, New York, South Carolina, and Texas have all allocated AMI costs as customer-based. If the Commission were to alter classification XLI recommended a split between demand and customer-related cost.

6. Office of Attorney General – Surrebuttal

The OAG showed that through analysis of value of meter plant in service from 2022, prior to the start of AMI meter implementation to 2024, when AMI rolled out but was not yet completed, the meter plant increased from \$100 million to over \$300 million. This is illustrated by Table 51 below. The OAG continued to support AMI allocation costs as one-third customer-related, one-third energy-related and one-third demand-related.

Table 51. Meter Plant Service NSPM 2015-2024⁴⁵²

FERC Reporting Year	Original Plant in Service - Meters, Balance at End of Year
2015	\$110,565,337
2016	\$111,266,652
2017	\$109,165,185
2018	\$107,111,921
2019	\$109,214,727
2020	\$103,685,390
2021	\$99,829,746
2022	\$118,182,797
2023	\$190,699,177
2024	\$316,312,557

7. Xcel Large Industrials – Surrebuttal

XLI continued to recommend AMI meter classification and allocation should reflect causation. XLI supported the Company’s position that 100% of AMI meter recovery should be customer-related.

8. Department of Commerce – Surrebuttal

The Department did not provide a recommendation in this rate case, instead the Department recommended the Commission to request Xcel Energy to provide a study of AMI meters compared to traditional meters in Xcel’s next rate case.

⁴⁵² OAG–11 at 27 (Scharber Surrebuttal)

9. Administrative Law Judge

The ALJ found the Company's recommended that the final determination on AMI classification is not necessary in this rate case sense the base rate revenue requirement includes a limited amount of internal labor and most costs related to AMI are recovered through the TCR Rider.

ALJ Found:

1069. The Commission should approve the OAG's proposed classification of AMI costs for any relevant rate purpose between now and a decision in Xcel's rate case.

1070. Because the recommendation on this issue is for the Commission to effectively adopt the least flawed proposal in the record, the Commission should also adopt the Department's recommendation and require the Company to provide a study showing the costs of AMI meters compared to the costs of traditional meters and the cost of reading those meters compared to AMI meters, and to classify the difference between those costs as either demand- or energy-related in Xcel's next rate case. This should allow the Commission to more precisely allocate the costs of AMI meters in that proceeding.

10. Xcel – Exceptions

Xcel disagreed with the ALJ findings and has three reasons for the ALJ was incorrect:

- First, it is simply not reasonable to order the Company to use a classification method that the ALJ has found is arbitrary.
- Second, there is no record support for the ALJ's guess about why the Company selected AMI meters.
- Third, no party has identified any AMI specific functions that are demand-related or energy-related, or demonstrated that such functions drive an increase in metering costs.

Requested Modified Finding at 1069-1070:

“There should be no change to the classification of meters in this case. Instead, the Commission accepts the Company's agreement to conduct a study on the appropriate classification of AMI meters compared to traditional meters, and to provide the results of the study and a recommendation in its next electric rate case.”

11. Office of Attorney General – Exceptions

OAG has a wording change that AMI cost will apply until final rates in Xcel's next rate case.

OAG requested finding Modified:

1069. The Commission should approve the OAG's proposed classification of AMI costs for any relevant rate purpose between now and a decision in Xcel's [next](#) rate case.

12. Staff Analysis

Staff concurs AMI meters should be split between customer-related and demand-related as these meters have capabilities that serve more than the old meters. A study will be the best way to show which cost allocation is appropriate.

13. Decision Options

- 1110 Require Xcel Energy to submit a study comparing costs of AMI meters with costs of traditional meters both in use and reading. (Department, ALJ)
- 1111 Approve cost allocation of AMI meters classified as one-third customer-related, one-third energy-related and one-third demand-related. (Office of Attorney General, ALJ)
- 1112 Approve cost allocation of AMI meters as 100% customer-related. (Xcel, XLI)

II. RESOLVED FINANCIAL ISSUES

A. Community Solar Gardens

1. Issue

Should the Commission approve an adjustment to revenue forecast that aligns with latest Community Solar Garden (CSG) fee structure?

2. Xcel Energy – Rebuttal

The Company noted that Information Technology (IT) capital investments related with consolidated billing functions for Low-to-Moderate Income Accessible (CSG) program were included in 2025 Test Year and 2026 Plan Year. The Company would update the other revenue forecast to align with the latest approved CSG fee structure. These accounting changes ensure the costs will be paid by those who caused them. Revenue requirement for 2025 Test year is \$0.7 million and for 2026 Plan year is \$1.4 million.

3. Department of Commerce – Surrebuttal

The Department agreed with Xcel Energy on this issue.

4. ALJ Report

The ALJ Found:⁴⁵³

98. The Company's cost of service should reflect the updated revenue forecast to align with the latest CSG fee structure, as agreed to by the Company and the Department.

5. Resolution

The Company updated its revenue forecast to align with latest approved CSG fee structure, resulting in an increase in other revenues in the 2025 test year and 2026 plan year, and a decrease in revenue requirements.

6. Decision Options

1113 Approve Xcel Energy's updated revenue forecast to align with latest approved CSG fee structure, resulting in an increase in other revenues in the 2025 test year of \$742,000 and 2026 plan year of \$1,415,000, and a decrease to revenue requirements. (Xcel, Department)

1114 Reject Xcel Energy's updated revenue forecast to align with latest approved CSG fee structure, resulting in an increase in other revenues in the 2025 test year and 2026 plan year, and a decrease to revenue requirements.

B. Customer Advances

1. Issue

Should the Commission approve Xcel's proposed customer advance expenses?

2. Xcel Energy – Direct and Rebuttal

In direct testimony, Xcel proposed (\$10.6 million) in customer advances for both the 2025 test year and 2026 plan year, based on actual 13-month average balances.

In rebuttal, Xcel discovered that customer advances were based on the 13-month period ending December 2023, rather than the 13-month period ending June 2024. In turn, Xcel adjusted customer advances to (\$11.6 million), reflecting a (\$1.0 million) adjustment for both the 2025 test year and 2026 plan year.

3. Department of Commerce – Surrebuttal

The Department agreed with Xcel's proposed adjustment.

⁴⁵³ ALJ Report at 22

4. ALJ Report

The ALJ noted the following in his findings:

101. Customer advances should reflect the 13-month period ending June 2024, as agreed to by the Company and the Department.

5. Staff Analysis

Staff concurs that this issue is resolved.

5. Decision Options

1115 Approve Xcel's customer advance expenses of (\$11.6 million) for both 2025 and 2026. (ALJ, Xcel, Department)

C. Nuclear Decommissioning and Accrual Costs

1. Issue

Should the Commission approve Xcel's updated nuclear decommissioning accrual amount of zero and the end-of-life (EOL) nuclear fuel accrual amounts of approximately \$155,000 for 2025 and \$160,000 for 2026?

2. Xcel Energy – Direct

In its direct testimonies⁴⁵⁴, Xcel explained that nuclear decommissioning costs for its three nuclear units are collected through general rates and placed into an external trust fund, as required by the Nuclear Regulatory Commission, to pay for future plant removal and long-term fuel storage. The annual accrual amounts are based on engineering studies estimating total decommissioning costs. In 2022, the Commission approved Xcel's decommissioning study and authorized a Minnesota-jurisdictional annual accrual of \$21.6 million, assuming a 60-year decommissioning approach and continued operation of the Monticello plant through 2040.⁴⁵⁵ Xcel included the same accrual amount in this rate case.

Xcel stated that its next nuclear decommissioning study filing was scheduled for December 1, 2024. Because that filing occurs after this proceeding, it does not currently affect the 2025 test year, although the Commission could later decide whether to incorporate updated projections or accrual changes.

Xcel also discussed End-of-Life (EOL) nuclear fuel accruals, which differ from decommissioning accruals because the funds are retained internally rather than placed in an external trust. These funds provide customers with a rate base offset benefit that reduces the Company's return on

⁴⁵⁴ Xcel, Johnson Direct, at 51

⁴⁵⁵ Docket No. E002/M-20-855

rate base. The accrual amount increases annually to reflect assumed interest and maintain the proper customer credit until a new rate case resets and rebalances the accrual and offset.⁴⁵⁶

The Commission previously approved increasing the annual Minnesota-jurisdictional EOL nuclear fuel accrual to \$714,366 effective January 1, 2022. Total Company EOL accruals are authorized at \$1.18 million for 2025 and \$1.26 million for 2026.⁴⁵⁷

3. Department of Commerce – Direct

The Department confirmed that Xcel included a Minnesota jurisdictional annual nuclear decommissioning accrual of \$21.6 million in the 2025–2026 Multi-Year Rate Plan (MYRP). However, the Commission’s May 14, 2025 order approved a significantly lower annual accrual of \$3.83 million for the Monticello and Prairie Island decommissioning scenario. Therefore, the Department recommended the Company reduce the accrual to the Commission-approved level, which would lower annual revenue requirements by about \$17.7 million in both 2025 and 2026.⁴⁵⁸

The Department also discussed End-of-Life (EOL) nuclear fuel accruals, which recover costs associated with unused nuclear fuel at reactor shutdown. Unlike decommissioning funds, EOL funds are held internally by the Company and provide customers with a rate base offset benefit. The Department commented that Xcel included a Minnesota-jurisdictional EOL accrual of \$714,366 in the MYRP, but the Commission approved a lower annual accrual of \$455,460 beginning in 2025. Therefore, the Department recommended Xcel to reduce the EOL accrual to the approved amount, resulting in a net revenue requirement reduction of about \$239,488 for both 2025 and 2026.⁴⁵⁹

4. Xcel Energy – Rebuttal

In its rebuttal, The Company agreed to reduce the nuclear decommissioning accrual to reflect the Commission’s order and to extend the depreciable lives of the Monticello and Prairie Island plants, resulting in a zero decommissioning accrual for 2025 and 2026 and annual revenue requirement reductions of about \$17.7 million. The Company also agreed to lower the End-of-Life nuclear fuel accrual to \$154,695 in 2025 and \$159,688 in 2026.

5. Department of Commerce – Rebuttal

The Department agreed with Xcel’s updated proposals for nuclear decommissioning accrual and EOL accrual.

⁴⁵⁶ Xcel, Johnson Direct, at 52

⁴⁵⁷ *Id.*, at 53

⁴⁵⁸ DOC, Golden Direct, at 3

⁴⁵⁹ *Id.*, at 4

6. ALJ Report

The ALJ found that the parties' agreement was reasonable and therefore recommended approving Xcel's updated nuclear decommissioning accrual amount of zero and the end-of-life (EOL) nuclear fuel accrual amounts of approximately \$155,000 and \$160,000 in 2025 and 2026, respectively.

The ALJ noted the following in his findings:

106. The Company agreed with the Department's recommendation to adjust the decommissioning accrual amount to approximately \$3.8 million based on the Commission's Order, resulting in annual revenue requirement reduction of approximately \$17.7 million in 2025 and 2026 and agreed to the Department's recommendation to extend depreciable lives of Monticello and Prairie Island nuclear plants to align with operational lives of the plants for planning purposes in the Commission's Order in Docket No. E-002/RP-24-67, resulting in annual decommissioning accrual amount of zero for 2025 and 2026.

107. The Company further agreed to adjust the end-of-life nuclear fuel accrual to also reflect the Commission order and to reflect extending the depreciable lives of the Monticello and Prairie Island nuclear plants. This adjustment reduced the decommissioning accrual amount to zero and the EOL accrual to \$154,695 for 2025 and \$159,688 for 2026.

108. The Department agreed with Xcel's updated proposals for nuclear decommissioning accrual and EOL accrual.

109. The nuclear decommissioning and EOL nuclear fuel accrual amount adjustments agreed to by the Company and the Department are reasonable and should be approved by the Commission.

7. Staff Analysis

Staff notes that on May 1, 2026, Xcel filed its 2025 annual compliance report on nuclear refueling outage expenditures, as required under a 2017 Commission Order⁴⁶⁰. The Company noted that it has submitted these reports annually since 2009. The Company requested that the Commission to discontinue the May 1 separate reporting requirement because the same information is already provided in other proceedings and the accounting treatment is no longer

⁴⁶⁰ Pursuant to the Commission's July 28, 2017 ERRATUM NOTICE (Notice) amending its FINDINGS OF FACT, CONCLUSIONS, AND ORDER (Order) issued June 12, 2017. The Notice included the following requirement omitted from the Order: *Xcel shall make a compliance filing showing the level of actual 2006–2015 nuclear-refueling-outage expenditures, by FERC account and by nuclear plant, and shall update the Commission on those expenditures annually by May 1. The filing must also show Xcel's 2006–2015 profit level resulting from the carrying charge.*

considered new or complex. Xcel also raised this request in the pending electric rate case.

8. Decision Options

1116 Allow Xcel to adjust its nuclear decommissioning accrual amount of zero and the end-of-life (EOL) nuclear fuel accrual amounts of approximately \$155,000 and \$160,000 in 2025 and 2026. (ALJ, Xcel, Department)

1117 Allow Xcel to discontinue the May 1 separate annual compliance report on nuclear refueling outage expenditures requirement. (Xcel)

1118 Deny Xcel's request to discontinue the May 1 separate annual compliance report on nuclear refueling outage expenditures requirement

D. Transmission, Distribution, and General (TD&G) Depreciation

1. Issue

Should Xcel's adjustment be allowed for TD&G Depreciation?

2. Xcel Energy – Direct

Generally, Xcel calculated TD&G asset reserve by determining what the depreciation reserve would be at a point in time, if the current information and assumptions about the life, salvage, and cost of removal had been known since the beginning of each asset's service life. If the theoretical reserve is lower than the actual book depreciation reserve, it results in a theoretical reserve surplus and a deficit can occur for the theoretical reserve to be higher than the actual book depreciation reserve, resulting in a theoretical reserve deficiency. A surplus or deficiency usually triggers an adjustment to rates in a rate case.⁴⁶¹

3. Xcel Energy – Rebuttal

Xcel made adjustments in its Rebuttal Testimony related to FERC Account 370 Meter -AGIS Remaining Life and FERC Account 390 – Structures and Improvements Remaining Life to make corrections identified in Department information requests and now proposes no change to depreciation rates for these accounts from the previous rate case.⁴⁶²

4. Department of Commerce - Surrebuttal

The Department agreed with Xcel's proposed rebuttal adjustment and considered the adjustment issue resolved.

⁴⁶¹ Ex. Xcel-2 at 46-47 (Johnson Direct).

⁴⁶² 8 Ex. Xcel-19 at 7 and Schedules 3A-3B (Halama Rebuttal); Ex. Xcel-86 at 7-10 (Moeller Rebuttal).

5. ALJ Report

The ALJ Found.⁴⁶³

112. The Company's rebuttal adjustments related to FERC accounts 370 and 390 are reasonable and should be approved by the Commission, as agreed by the Company and the Department.

6. Decision Options

1119 Approve Xcel's rebuttal adjustments related to FERC accounts 370 and 390 for TD&G depreciation expense. (Xcel, Department, ALJ)

E. Distributed Intelligence My Energy Connection (MEC) 3.0

1. Issue

Should Xcel's allocation adjustments for MEC 3.0 Project be approved?

2. Xcel Energy - Direct

Distributed intelligence refers to new meters with data processing capabilities that Xcel is deployed. The Department requested information in discovery process during Xcel' rebuttal testimony on allocation adjustments for MEC 3.0 project.

3. Department of Commerce - Rebuttal

Through the discovery process, the Department identified an error in which the MEC 3.0 project had been incorrectly allocated 100 percent to NSPM rather than being allocated across all operating companies, with only 34.4 percent of costs allocated to NSPM.

Therefore, an adjustment is required to remove 65.6 percent of projects from NSPM and assigned to other operating companies. This adjustment impacts the MYRP Forecast revenue requirements by (\$4,380,000) in 2025 and (\$489,000) in 2026.⁴⁶⁴

The Department accepted Xcel's correction adjustments as reasonable. And considered the issue resolved.

4. ALJ Report

The ALJ Found.⁴⁶⁵

115. The Company's rebuttal adjustments related to FERC accounts 370 and 390 are reasonable and should be approved by the Commission, as agreed to by the Company and the Department.

⁴⁶³ ALJ Report 112.

⁴⁶⁴ Ex. Xcel – at 7-8 (Halama Rebuttal), see also Schedules 3A and 3B, page 2, row 84, column 12.

⁴⁶⁵ ALJ Report at 115.

5. Decision Options

1120 Approve Xcel's correction adjustments to MEC 3.0 project of (\$4,380,000) and (\$489,000) for 2025 and 2026 to accurately allocate costs to all operating Companies. (Xcel, Department, ALJ)

F. Distributed Intelligence

1. Issue

Should the Commission accept the correction and approve the adjustment to MYRP forecast?

2. Xcel Energy – Direct

The Company was completing validation of the revenue requirement and identified a non-NSPM distributed intelligence project that was inadvertently included in the MYRP Forecast.

Xcel stated that removing this project will decrease the overall revenue requirement deficiency approximately \$0.2 million in 2025 and 2026. Xcel also noted its interim rate petition included distributed intelligence projects. Xcel proposed to remove the \$0.2 million from the MYRP Forecast in rebuttal testimony.

3. Xcel Energy - Rebuttal

Xcel stated that the removal of this project will decrease the overall revenue requirement deficiency by approximately \$0.2 million in 2025 and 2026. Also disclosed that the Company's interim rate petition did not include distributed intelligence projects. Xcel will remove the \$0.2 million from the MYRP Forecast

4. Department of Commerce - Surrebuttal

The Department considered this issue resolved.

5. ALJ Report

The ALJ Found⁴⁶⁶

The ALJ Found

118. The Company's rebuttal adjustment for this project is reasonable and should be approved by the Commission, as agreed to by the Company and Department..

6. Decision Options

1121 Approve Xcel's adjustment from the removal of one non NSPM distributed intelligence project from MYRP forecast in the amount of \$0.2 million in 2025 and

⁴⁶⁶ The ALJ Report at p.24.

2026. (Xcel, Department, ALJ)

G. Employee Expense

1. Issue

Should the Commission approve the adjustment to employee expenses for 2025 test year?

2. Xcel Energy

Xcel stated that it inadvertently omitted to include \$35,000 certain transactions related to employee expenses proposed amount of \$15,757,000 for 2025 in this rate case. The Company proposed to adjust its requested amount for employee expenses for test year 2025 downward by the entire \$35,000, to approximately \$15,722,000.⁴⁶⁷

3. Party Positions

No parties offered question about this adjustment

4. ALJ Report

The ALJ Found⁴⁶⁸

120. The Company's rebuttal adjustment for this project is reasonable and should be approved by the Commission.

5. Decision Options

1122 Approve Xcel's proposed adjustment to Employee expenses of \$35,000 for 2025 test year. (Xcel, Department, ALJ).

H. Electric Vehicle Program

1. Issue

Should the Commission approve Xcel's adjusted IT capital costs related to the Company's Electric Vehicle Programs in the MYRP (2025-2026) budget?

2. Xcel Energy - Direct

The Company provided overview of its Distribution's Capital Investments in Mensen Direct testimonies, and the Electric Vehicle (EV) Program is part of the Distribution's Capital Investments. The Company explained that the Commission previously approved IT capital and O&M costs under its 2023 Transportation Electrification Plan for 2024–2027 including the EV

⁴⁶⁷ Ex. Xcel – at 2 (Robinson Supplemental Direct).

⁴⁶⁸ The ALJ Report at p.24.

program, but some approved IT capital costs for 2025–2026 were inadvertently omitted from the MYRP budget. The Company stated the cost of service will be updated in rebuttal to include these previously approved Capital and O&M expenses.⁴⁶⁹

3. Xcel Energy - Rebuttal

In its rebuttal testimony⁴⁷⁰, the Company explained that, although the Commission previously approved IT capital (\$2.4 million) and O&M (\$0.9 million) costs for the 2024–2027 Transportation Electrification Plan,⁴⁷¹ a portion of the 2025–2026 IT capital costs was inadvertently omitted from the MYRP budget. The rebuttal updates the cost of service to include these previously approved electric vehicle program costs, which will increase the revenue requirement by \$212 million in 2025 and \$436 million in 2026.⁴⁷²

4. Department of Commerce – Surrebuttal

The Department reviewed and agreed with the Company’s proposed adjustment.⁴⁷³

5. ALJ Report

The ALJ found:⁴⁷⁴

123. The Company’s adjustment for electric vehicles programs is reasonable and should be approved by the Commission, as agreed to by the Company and the Department.

6. Decision Options

1123 Approve Xcel’s adjusted IT capital costs related to the Company’s Electric Vehicle Programs in the MYRP (2025-2026) budget. (Xcel Energy, ALJ, Department)

I. Hosting Capacity

1. Issue

Should the Commission approve Xcel’s proposed Hosting Capacity expenses?

⁴⁶⁹ Xcel, Halama Direct, at 98

⁴⁷⁰ Xcel, Halama Rebuttal, at 11-12

⁴⁷¹ In the Matter of Xcel Energy’s 2023 Integrated Distribution Plan, Docket No. E002/M-23-452, ORDER APPROVING XCEL ENERGY’S 2023 TRANSPORTATION ELECTRIFICATION PLAN WITH MODIFICATIONS, Order Points 18 and 19 (May 9, 2024).

⁴⁷² *Id.*, Schedules 3A and 3B, page 2, row 84, column 16

⁴⁷³ DOC, Johnson Surrebuttal, at 31 and Schedule 1

⁴⁷⁴ ALJ Report, at 25

2. Xcel Energy – Direct

Xcel included hosting capacity upgrades of \$15.2 million in its 2026 budget, to address capacity constraints for the interconnection of distributed generation resources. These capacity upgrades include reinforcing feeder circuits, installing new feeder circuits, and reinforcing substation transformers. Xcel also indicated that these projects would be for either proactive distribution upgrades⁴⁷⁵ or Company-funded portions of reactive distributed energy resources (DER) cost sharing projects,⁴⁷⁶ and would result in specific projects being identified for implementation in 2026.

Additionally, Xcel proposed to continue recovering Hosting Capacity projects in the Transmission Cost Recovery (TCR) Rider, as part of implementing final rates.

3. Joint Intervenors – Direct

Joint Intervenors recommended deferring hosting capacity cost recovery, as Xcel proposed to select and prioritize upgrades using the Commission-approved Proactive Upgrade Framework that was approved on September 2, 2025,⁴⁷⁷ and incorporate this work into its 2025 IDP. Joint Intervenors argued that hosting-capacity dollars should be authorized after the Framework identifies project-level needs, locations, timing, and cost-allocation, and produces project-specific proposals in the next IDP.

4. Xcel Energy – Rebuttal

Based on the timing and progress of the hosting capacity projects, Xcel did not expect that specific projects will be identified for implementation in 2026. As such, Xcel proposed to remove its proposed \$15.2 million in hosting capacity projects, which represents a reduction of the same amount to the Distribution capital budget, and a reduction of \$7.6 million in 2026 average rate base.

5. Department of Commerce – Rebuttal

The Department agreed with Xcel’s proposed adjustment.

6. ALJ Report

The ALJ noted the following in his findings:

134. The Company’s removal of capital additions in 2026 for hosting capacity projects is reasonable and should be approved by the Commission.

⁴⁷⁵ Defined in Docket No. E-002/CI-24-318.

⁴⁷⁶ Defined in Docket No.’s E-002,E-015,E-017/CI-24-288.

⁴⁷⁷ *In the Matter of a Commission Inquiry into a Framework for Proactive Distribution Grid Upgrades and Cost Allocation for Xcel Energy*, Docket No. E-002/CI-24-318, ORDER ESTABLISHING FRAMEWORK FOR PROACTIVE DISTRIBUTION GRID UPGRADES, Ordering Paragraphs 2-4. (September 2, 2025)

7. Staff Analysis

Staff concurs that this issue is resolved.

8. Decision Options

1124 Approve Xcel's hosting capacity upgrade expense of \$0 for 2026. [ALJ, Xcel, Joint Intervenors, Department)

J. Luverne Battery Reallocation

1. Issue

Should the Commission approve Xcel's proposed Luverne Battery Reallocation expenses?

2. Xcel Energy – Direct

Xcel noted the Commission's 2021 Rate Case Order,⁴⁷⁸ which authorized a reserve reallocation of no more than \$2.14 million to dismantle, dispose of, and fully restore the Luverne Wind2Battery system, in addition to performing an inverse reallocation to return unused amounts if actual costs are lower. Additionally, Xcel agreed not to seek additional reserve allocations from assets in the Other Production plants account.

Xcel included the estimated removal costs of just over \$1.2 million for the rate case, thus the Company performed the inverse reallocation, and would provide an update of final costs in rebuttal testimony.

3. Xcel Energy – Rebuttal

Xcel noted that the actual removal costs totaled \$1.3 million, or \$0.1 million more than expected. The Company made the appropriate adjustment to decrease the reallocation portion, and thus increased the rebuttal revenue requirement.

4. Department of Commerce – Rebuttal

The Department agreed with Xcel's proposed adjustment.

5. ALJ Report

The ALJ noted the following in his findings:

⁴⁷⁸ *In the Matter of the Application of Northern States Power Company, dba Xcel Energy, for Authority to Increase Rates for Electric Service in the State of Minnesota*, Docket No. E-002/GR-21-630, FINDINGS OF FACT, CONCLUSIONS, AND ORDER, Ordering Paragraph 19. (July 27, 2023)

138. The Company's adjustment for the Luverne Battery reallocation is reasonable and should be approved by the Commission, as agreed to by the Company and the Department.

6. Staff Analysis

Staff concurs that this issue is resolved.

7. Decision Options

1125 Approve Xcel's Luverne Battery Reallocation expense of \$1.3 million for 2026.
[ALJ, Xcel, Department]

K. Nuclear Production Tax Credit

1. Issue

Should the Commission approve Xcel's' adjustment of the cost of service to incorporate 2026 forecasted nuclear Production Tax Credits (PTC), including the PTC refund in the Fuel Clause Adjustment Rider?

2. Xcel Energy - Direct

In its initial filing, the Company has not included any nuclear PTCs in the MYRP Forecast cost of service due to uncertainty of the actual PTC value the Company will receive and potential guidance from the Internal Revenue Service (IRS). As per Halama's direct testimony, The Company will update the 2025-2026 MYRP Cost of Service Study (COSS) accordingly through this proceeding when additional information is available⁴⁷⁹.

3. Xcel Energy - Rebuttal

The Company provided a forecast for 2026 Nuclear PTCs in its 2026 Fuel Forecast in its Petition {Trade Secret}. With the inclusion of Nuclear PTC forecast, there would be an overall reduction in the Company's proposed 2026 fuel costs. The Company has incorporated the most recent forecast into the rebuttal cost of service in this case.

Xcel also noted the Commission's July 17, 2023, Order in the Company's last electric rate case (Docket No. E002/GR-21-630) approved the Company's proposal to include a nuclear PTC tracker and refund in the Fuel Clause. As such, this adjustment reflects the PTC refund in the Fuel Clause and is included in the rebuttal cost of service to ensure all secondary calculations are accurate. Any difference between the nuclear PTC forecast and actuals for 2026 will be included in the tracker for refund in the Fuel Clause and is included in the rebuttal cost of service to ensure all secondary calculations are accurate. Any difference between the nuclear PTC forecast and actuals for 2026 will be included in the tracker for refund in the Fuel Clause.

⁴⁷⁹ Ex. Xcel-17 at 57 (Halama Direct)

The impact of this adjustment on the MYRP Forecast revenue requirements is zero as shown in Xcel's rebuttal, Schedules 3A and 3B.⁴⁸⁰

4. Department of Commerce – Surrebuttal

The Department agreed with Xcel's proposal.

5. ALJ Report

The ALJ Found:⁴⁸¹

142. The agreement between the Company and the Department to adjust the nuclear PTC baseline, subject to true-up in the fuel clause, is reasonable and should be approved by the Commission.

6. Decision Options

1126 Xcel's adjustment of the cost of service to incorporate 2026 forecasted nuclear Production Tax Credits (PTC), including the PTC refund in the Fuel Clause Adjustment Rider. (Xcel, Department, ALJ)

L. Solar Production Tax Credits – Allocation

1. Issue

Should the Commission allow Xcel to reallocate Solar Production Tax Credits (PTC) consistent with the RES Rider, based on the Minnesota jurisdictional energy allocator instead of the demand allocator?

2. Xcel Energy – Direct and Rebuttal

In its direct testimony, Xcel identified that solar PTCs had been incorrectly allocated using the Minnesota jurisdictional demand allocator rather than the Minnesota jurisdictional energy allocator, which is more appropriate due to the variable nature of solar generation. The adjustment to be included in rebuttal testimony would add approximately \$69,000 to the 2025 test year and \$136,000 to the 2026 plan year. The Company did not make an adjustment to interim rates.⁴⁸²

In its rebuttal testimony, Xcel confirmed that the corrected adjustment would impact the MYRP revenue requirement by approximately \$0.084 million (or \$84,000) in 2025 and \$0.164 million (or \$164,000) in 2026. The Company noted that these amounts differ slightly from the amounts

⁴⁸⁰ Ex. Xcel-19 at 16-17 (Halama Rebuttal) and Schedules 3A and 3B, page 4, row 84, column 21

⁴⁸¹ ALJ Report at 27

⁴⁸² Xcel - Halama Direct, pg. 96-97

previously identified due to an error involving interchange revenue, which should have remained constant.⁴⁸³

3. Department of Commerce - Surrebuttal

The Department reviewed and agreed with Xcel's proposed adjustments.⁴⁸⁴

4. ALJ Report

The ALJ Found:⁴⁸⁵

146. The Company's adjustment for the solar PTCs is reasonable and should be approved by the Commission, as agreed to by the Company and the Department.

5. Decision Options

1127 Approve Xcel's proposed adjustment for Solar Production Tax Credits in the amount of \$84,000 in 2025 and \$164,000 in 2026. (Xcel, Department, ALJ)

M. Federal Production Tax Credits (PTCs)

1. Issue

Should the Commission approve Xcel's adjusted baseline PTC amount in base rates for each year of the MYRP, 2025 and 2026, subject to true-up in the RES Rider?

2. Xcel Energy - Direct

Xcel requested Production Tax Credits (PTCs) treatment consistent with the previously approved process and proposed setting a new baseline PTC amount in base rates for each year of the MYRP, 2025 and 2026 at the table below:

Table 52 - Production Tax Credits - Renewable Energy Resources⁴⁸⁶

<i>(Amount in \$000s)</i>	2025	2026
MN PTC Impact on Rev	(\$252,741)	(\$222,256)
Req net of I/A		

Xcel stated that the production at the repowered wind facilities is expected to begin in 2025. Given the anticipated in-service dates of these projects, the Company recommended that these projects be recovered through the RES Rider. The difference between actual and baseline PTCs

⁴⁸³ Xcel - Halama Surrebuttal, Exhibit ___ (BCH-3), Schedule 3A, page 4, row 84, column 22

⁴⁸⁴ DOC- Johnson Surrebuttal, pg. 31-33

⁴⁸⁵ ALJ Report at 27

⁴⁸⁶ Xcel, Halama Direct, at 58 and Volume 4, Section III Rate Base (Plant), Subpart P8-1, Production Tax Credits

would be recorded in the Renewable Energy Standard (RES) Tracker account and would be either refunded to or recovered from customers through the RES Rider, pursuant to Commission review and approval in future RES Rider filings.

In addition to PTCs being included in the RES Rider, Xcel recommended that the RES Rider act as a true-up mechanism for the PTCs related to projects already in service and included in base rates as a part of the 2022 test year cost of service.

3. Department of Commerce - Direct

The Department agreed with the Company's proposal to use a true-up mechanism for PTCs in the RES Rider. Including an accurate forecast of PTCs in base rates reduces the likelihood of significant changes in rates when the value of PTCs actually generated are trued-up through the RES Rider.

However, the Department did not agree with the Company's test year PTC forecasts which were based on the Company's 2024 July forecast. The Department recommended using the updated February 2025 PTC forecast instead, as it provides more accurate production tax credit amounts for the 2025 and 2026 test years.

Following the Company's calculation for converting PTCs to a revenue requirement adjustment⁴⁸⁷, the Department recommended reducing the Company's proposed revenue requirements for the Minnesota Electric Jurisdiction, net of the interchange agreement and net of rider removal, as shown in table 53.

Table 53 - Comparing Proposed and Recommended Revenue Requirement Adjustment for Production Tax Credits Rounded to nearest \$1,000⁴⁸⁸

Year	Company Proposed MN Elec Juris. ⁴⁸⁹	Department Recommended MN Elec Juris. ⁴⁹⁰	Department MN Elec Juris. Adjustment
2025	(\$252,741,000)	(\$274,281,000)	(\$21,540,000)
2026	(\$222,256,000)	(\$232,701,000)	(\$10,445,000)

4. Xcel Energy – Rebuttal

The Company stated that it is reasonable that the Company update the baseline PTC level in base rates based on the most recent forecast and agreed with the Department's recommendation to adjust and increase the baseline PTC amount included in the MYRP. Since

⁴⁸⁷ Xcel, Volume 4, Section III Rate Base (Plant), Subpart P8-1, Production Tax Credits.

⁴⁸⁸ Ex. DOC-7 at 7 (Uphus Direct)

⁴⁸⁹ Xcel, Volume 4, Section III Rate Base (Plant), Subpart P8-1, Production Tax Credits

⁴⁹⁰ Ex. DOC-7 at 8 (Uphus Direct)and attachment AU-D-1.

the PTCs serve as a cost of service offset, the recommended increase in the baseline PTC amounts would reduce the cost of service by approximately \$21.5 million and \$10.4 million over the MYRP.⁴⁹¹

5. ALJ Report

The ALJ Found:⁴⁹²

150. The Company's adjustment for to the baseline for Federal PTCs, subject to true-up in the RES Rider, is reasonable and should be approved by the Commission.

6. Staff Analysis

Xcel raised no objection to the Department's recommendation, and no other party commented or took a position on this matter. Staff also agree with the Department's recommendation. This issue is resolved.

7. Decision Options

1128 Approve Xcel's adjusted baseline PTC amount in base rates for each year of the MYRP, 2025 and 2026, subject to true-up in the RES Rider. (Xcel, Department, ALJ)

N. Remaining Lives and Net Salvage Rates – Production

1. Issue

Should Commission approve the requested remaining lives and net salvage rates – production?

2. Xcel Energy – Direct

The Company requested to extend the depreciation lives of Hennepin Island and Upper Dam Hydro facilities in its 2024 Annual Remaining Lives (ARL) filing⁴⁹³, utilizing a 2024 dismantling study to reflect the updated removal costs and associated net salvage rates.

3. Department of Commerce – Direct

The Department recommended the Commission to deny the Company's request to extend the depreciation lives of the Company's Hennepin Island and Upper Dam hydro facilities, instead approving a remaining life of 9.2 years⁴⁹⁴, and requested that the Company provide an update on the cost of removal related to the Luverne Wind2 Battery System.

⁴⁹¹ Xcel, Halama Rebuttal, at 18.

⁴⁹² ALJ Report at 28

⁴⁹³ Docket No. E, G002/D-23-356, September 9, 2024

⁴⁹⁴ In the Matter of Xcel Energy's 2023 Annual Review of Remaining Lives and Depreciation Rates for Electric and Gas Production and Gas Storage Facilities & & for Transmission, Distribution, and General

4. Xcel Energy - Rebuttal

Xcel had no objection to the Department's recommendation. The depreciation expense impact is an increase of approximately \$1.6 million in 2025 and \$2.1 million in 2026 for the hydro production facilities⁴⁹⁵. The impact of these adjustments has been incorporated in the MYRP Forecast revenue requirements⁴⁹⁶.

Xcel noted that, in the Docket No. E,G002/D23-356's Reply Comments⁴⁹⁷ the Company initial estimate for the final decommissioning cost was \$1,209,904 but the actual costs came in at \$1,262,706, an increase of \$52,805.

5. ALJ Report

The ALJ noted the following in his findings:

155. The Company's adjustment for Remaining Lives and Net Salvage Rates - Production, consistent with the Department's recommendation, is reasonable and should be approved by the Commission.

6. Staff Analysis

Xcel raised no objection to Departments recommendation. Staff agrees with the Department's recommendation and concurs that this issue is resolved.

7. Decision Options

1129 Disallow the extension request for the depreciation lives of Hennepin Island and Upper Dam Hydro facilities and instead use a remaining life of 9.2 years, resulting in an increase in depreciation expense of approximately \$1.6 million in 2025 and \$2.1 million in 2026. (Xcel, Department, ALJ)

O. Remaining Lives – Nuclear

1. Issue

Should the Commission approve Xcel's adjustment to depreciation lives and expense to match the depreciable lives of the Monticello and Prairie Island nuclear plants approved in the 2024-2040 IRP (Docket No. E002/RP-24-67)?

Accounts, Docket No. E, G002/D-23-536, Comments (Sep. 8, 2025).

⁴⁹⁵ Xcel, Moeller Rebuttal, pg. 8

⁴⁹⁶ Xcel, Halama Rebuttal, pg. 20-21

⁴⁹⁷ Id., Exhibit (BCH-3), Schedule 3A and 3B, Page 4 of 6

2. Department of Commerce – Direct

In its Direct testimonies, the Department mentioned that on April 21, 2025, the Commission issued an order approving Xcel Energy's Integrated Resource Plan (IRP) settlement agreement and acquisition process for up to 800 MW of firm dispatchable generation. The order approved extending the planning lives of the Monticello and Prairie Island nuclear plants and shortening the operating lives of the Sherco 3 and King coal plants.

As a result of these IRP decisions, the Department confirmed that the Company proposed aligning the depreciation lives of the affected plants with their revised operating lives, consistent with past practice unless doing so would create significant rate shock. In response to Department information request, Company witness Benjamin Hamala provided analysis showing the revenue requirement impacts of matching depreciation schedules to the updated IRP operating lives.⁴⁹⁸

Therefore, the Department recommended the Commission to approve depreciation adjustments for the Monticello and Prairie Island nuclear plants and the Sherco 3 and King coal plants. These adjustments would reduce the Minnesota Electric Jurisdiction revenue requirement by approximately \$10.9 million in 2025 and \$13.6 million in 2026. Additional related adjustments to rate base would also occur to reflect the impact of revised depreciation expense calculations.

3. Xcel Energy – Rebuttal

The Company accepted the Department's recommendation to update the depreciation lives of the Monticello and Prairie Island nuclear plants to match the operating lives of these plants approved in the Company's 2024-2040 IRP.

4. Department of Commerce – Surrebuttal

In its surrebuttal, the Department recommended the Commission to approve the Company's proposed adjustments to depreciation lives and expense to match Commission-approved Integrated Resource Plan (IRP) operating lives for Xcel Energy's generating plants. This includes adjustments for both nuclear and coal facilities.

For the Monticello and Prairie Island nuclear plants, the proposed revenue requirement reductions were approximately (\$69.7 million) in 2025 and (\$68.9 million) in 2026. For the Sherco 3 and King coal plants, the shortened operating lives resulted in revenue increases of about \$58.8 million in 2025 and \$55.4 million in 2026.

When combined, these changes produce a net overall depreciation revenue requirement reduction of approximately (\$10.9 million) in 2025 and (\$13.6 million) in 2026.

⁴⁹⁸ DOC, Jones Direct, at 15 and Exhibit HDJ-D-6

5. ALJ Report

The ALJ found:

158. The adjustment to the Company's cost of service to reflect updated depreciation lives of the Monticello and Prairie Island nuclear plants to match the operating lives of these plants, as approved in the Company's 2024-2040 IRP, is reasonable and should be approved by the Commission

6. Decision Options

1130 Approve Xcel's adjustment to depreciation lives and expense to match the depreciable lives of the Monticello and Prairie Island nuclear plants approved in the 2024-2040 IRP (Docket No. E002/RP-24-67). (Xcel Energy, ALJ, Department)

P. TCR Rider Removal FERC Reclassification

1. Issue

Should the Commission require FERC reclassification of AMI meters as it relates to TCR Rider and underground lines?

2. Xcel Energy – Rebuttal

The Company realized that the TCR misclassified in FERC account related to AMI meters. The Company made an adjustment to correct for the misclassification. The adjustment will move balances from underground lines (FERC 367) to meters (FERC 370). The internal labor plant investment ending balance for AMI meters is \$5.1 million in 2025 Test year and \$5.9 million in 2026 Plan year.

3. Department of Commerce – Surrebuttal

The Department agreed with Xcel Energy on this issue.

4. Administrative Law Judge Report

The ALJ Found:⁴⁹⁹

161. The Company's adjustment for AMI meters is reasonable and should be approved by the Commission, as agreed to by the Company and the Department.

5. Resolution

The Company made an adjustment to correct for a misclassification in FERC accounts related to AMI meters.

⁴⁹⁹ ALJ Report at 29

6. Decision Options

1131 Allow Xcel Energy to adjust correctly for a misclassification in FERC accounts related to AMI meters. (Xcel, Department)

1132 Disallow Xcel Energy's proposed adjustment to correct for a misclassification in FERC accounts related to AMI meters

Q. TCR Rider Removal Update

1. Issue

Should the Commission require Xcel Energy to coordination of TCR Rider removal with TCR Rider filing?

2. Xcel Energy – Direct

The Company does coordinate between the rate case MYRP and the TCR Rider filing. However, the rate case and rider filings calculate revenue requirements using different rate base averaging methodologies and this can cause variances in revenue requirement calculations. The TCR Rider removal adjustment removes all costs and revenues from the MYRP forecast jurisdictional cost of service except internal labor, Advanced Distribution Managements System (ADMS) software maintenance O&M costs and MISO RECB schedule 26 and 26A net revenues. The amount for 2025 Test year is (\$125,000) and the amount for 2026 Plan year is (\$169,000).

3. Xcel Energy – Rebuttal

The Company disclosed the amount of TCR Rider revenue was understated, as a result the rider removal required an adjustment to increase TCR rider revenue.

4. Department – Surrebuttal

The Department agreed with the Company on adjustments related to TCR Rider revenue.

5. Administrative Law Judge Report

The ALJ Found:⁵⁰⁰

164. The Company's adjustment for the TCR Rider Removal is reasonable and should be approved by the Commission, as agreed to by the Company and Department.

⁵⁰⁰ ALJ Report at 30

6. Resolution

The Company adjusted the TCR Rider to fully remove all AMI capital costs recovered in the TCR Rider revenue and to remove the equivalent rider revenues included in the MYRP cost of service.

7. Decision Options

1133 Allow Xcel Energy to adjust the TCR Rider to fully remove all AMI capital costs recovered in the TCR Rider revenue and to remove the equivalent rider revenues of (\$125,000) for 2025 and (\$169,000) for 2026 included in the MYRP cost of service. (Xcel, Department)

1134 Reject Xcel Energy's adjustment of the TCR Rider to fully remove all AMI capital costs recovered in the TCR Rider revenue and to remove the equivalent rider revenues included in the MYRP cost of service.

R. Service Quality

1. Issue

Should the Commission approve the adjustment to reflect Commission Order in Docket No. E002/M-24-27 for Xcel to hire a third-party evaluator to evaluate Xcel's practices and policies related to capital investment planning, et.?

2. Xcel Energy - Rebuttal

Xcel proposed an adjustment to incorporate costs in the 2025-2026 MYRP to comply with Commission's Order in Docket No. E002/M-24-27 for Xcel to hire a third-party evaluator to evaluate Xcel's practices and policies related to capital investment planning, outage restoration practices, and shutoff practices to better understand the causes of discrepancies in shutoff rates and service reliability.⁵⁰¹

3. Department of Commerce – Surrebuttal

The Department agrees with Xcel's proposed rebuttal adjustments.

4. ALJ Report

The ALJ Found

167. The Company's adjustment to reflect the Commission's Order in Docket No. E002/M-24 is reasonable and should be approved by the Commission, as agreed to by the Company and the Department.

⁵⁰¹ Ex. Xcel-19 at 26-27 and Schedules 3A-3B (Halama Rebuttal).

5. Decision Options

1134 Approve Xcel's adjustment to incorporate costs in the 2025-2026 MYRP to comply with Commission's Order in Docket No. E002/M-24-27 for Xcel to hire a third-party evaluator to evaluate Xcel's practices and policies related to capital investment planning, outage restoration practices, and shutoff practices to better understand the causes of discrepancies in shutoff rates and service reliability, of \$50,000 in 2025 test year and \$209,000 for plan year. (Xcel, Department, ALJ)

S. Sherco Inventory Write Off

1. Issue

Should the Commission allow Sherco Unit 1 has \$8.1 million in obsolete inventory write-off due to retirement?

2. Xcel Energy – Direct

Xcel Energy proposed balance of obsolete inventory from Sherco Unit 1 will be written off to O&M in 2026. This is required as Sherco Unit 1 is scheduled to retire in 2026.

3. Department of Commerce – Direct

The Department recommended Xcel Energy amortize the balance of the proposed write-off over a three-year period, consistent with its proposal to amortize rate case expense.

4. Xcel Energy – Rebuttal

The Company agreed with the Department to amortize write amount over a three-year period to begin in 2025.

5. Administrative Law Judge Report

The ALJ Found:⁵⁰²

172. The agreed upon adjustment to amortize the Sherco Unit 1 inventory write-off amount of \$8.1 million over three years and to revise the revenue requirement to reflect the three-year amortization beginning in 2025 is reasonable, better aligns costs with service life, and should be approved by the Commission.

6. Resolution

The Company agreed with the Department's recommendation to amortize the write-off amount of \$8.1 million over three years and revised the revenue requirement to reflect the three-year amortization beginning in 2025.

⁵⁰² ALJ Report at 31

7. Decision Options

1136 Authorize Xcel Energy to amortize the write-off amount of \$8.1 million over three years and revised the revenue requirement to reflect the three-year amortization beginning in 2025. (Xcel, Department)

1137 Reject Xcel Energy's request to amortize the write-off amount of \$8.1 million over three years and revised the revenue requirement to reflect the three-year amortization beginning in 2025.

T. Wildfire Mitigation Program

1. Issue

Should the Commission approve Xcel's proposed adjusted \$48.06 million of larger-scale wildfire-related capital additions for the 2025 test year and 2026 plan years combined, with approximately \$9.19 million in annual wildfire-related O&M expenses of wildfire-related operations?

2. Xcel Energy – Direct and Supplemental Direct

In its Direct and Supplemental Direct testimonies, multiple Company witnesses testified on issue surrounding implementing the wildfire mitigation program. The testimonies from Xcel's Vice President of Wildfire Mitigation, Regulatory and Policy⁵⁰³ and Vice President of Distribution Engineering and Grid Transformation Delivery⁵⁰⁴ described significant expansion of wildfire mitigation efforts, with a notable shift from operating expenses to capital investment following the completion of an operationalized risk map. The Company said wildfire risk is increasing nationally, with wildfire severity and intensity rising since 2000. Although Xcel Energy operates facilities in areas with wildfire risk and utility equipment can be a source of ignition, Minnesota's wildfire risk remains comparatively low both nationally and within Xcel's broader service territory. Xcel's Minnesota service area is generally located in lower-risk regions of the state, though climate trends such as rising temperatures, drought conditions, and stronger winds have increased concern about future wildfire exposure. Minnesota has averaged approximately 217 annual Red Flag Warning events in recent years, with most wildfire activity occurring in northern and central Minnesota. Unlike western states, most Minnesota wildfires are caused by human activity rather than lightning.

In order to evaluate and prioritize wildfire mitigation needs, Xcel retained EDM International to develop a geospatial wildfire risk map using U.S. Forest Service data. The Company organized its wildfire mitigation strategy into four categories: situational awareness, system resiliency, operational mitigations, and customer support. Initially, Xcel proposed approximately \$175.3 million in capital spending and \$76.8 million in O&M expenses for wildfire mitigation in 2025 and 2026. After refining its operationalized wildfire risk map, the Company substantially revised

⁵⁰³ Xcel, Sherwood Direct and Supplemental Direct

⁵⁰⁴ Xcel, Bloch Direct and Supplemental Direct

its proposal, increasing capital spending to approximately \$280 million while reducing O&M spending to approximately \$23.8 million.

On table 54, staff summarizes the Company's initial proposed expense from preliminary planning assumptions and historical costs from other jurisdictions, such as Colorado, because the Minnesota-specific risk map was not yet finalized (from Direct Testimonies) and the Company's refined budget due to completion of the operationalized wildfire risk map (from Supplemental Direct Testimonies)

Table 54: Summary of Wildfire Mitigation Program budget

Expense	Initial budget request	Refined Request	Reason of change
Overall Capital Additions	\$175.3 million	\$280.0 million	Increased 55% after completion of operationalized wildfire risk map and feeder-level planning
Overall O&M Expenses	\$76.8 million	\$23.8 million	Significant reduction due to shifting vegetation management and site preparation costs into capital projects
Planning Basis	Preliminary assumptions and historical data from other states	Minnesota-specific operationalized wildfire risk map	More granular targeting of Tier 2 and Tier 3 risk areas
Vegetation Management Treatment	Primarily O&M	Majority capitalized	Company argued initial intensive clearing supports new capital assets under FERC Account 365

According to the Company, the most significant driver of this change was the implementation of feeder-level planning, which allowed the Company to bundle incremental vegetation management and site preparation into larger capital projects rather than treating them as separate O&M activities.⁵⁰⁵

The largest proposed expenditures included approximately \$140 million for Enhanced Powerline Safety Settings (EPSS), which increase the sensitivity and speed of relays and reclosers to reduce wildfire ignition risks from electrical faults, and about \$80 million for Overhead Pole Assessments (OPA), which use drone inspections and asset analysis to identify

⁵⁰⁵ Xcel Bloch Supplemental Direct, at 5

safety and reliability deficiencies on the distribution system. Xcel also proposed approximately \$90 million for wildfire vegetation management (VM), including enhanced vegetation clearance standards in wildfire-prone areas. The Company later shifted some of the vegetation management spending from O&M to capital expenditures, arguing that wildfire-related vegetation work could be coordinated with feeder-level infrastructure upgrades and system hardening projects. Additional smaller-scale programs included AI wildfire detection cameras, weather stations, wildfire modeling software, and ongoing wildfire risk map updates.

Table 55 reflects the breakdown of Company's adjusted budget for its Distribution activities both Capital and O&M

Table 55: Revised 2025-2026 Distribution Program Budgets (Supplemental Direct Testimony)

Activity	2025 Capital (\$M)	2026 Capital (\$M)	2025 O&M (\$M)	2026 O&M (\$M)	
Enhanced Powerline Safety Settings (EPSS)	20.9	63.6	0	0	Faster fault detection and reduced wildfire ignition risk
Overhead Pole Assessments (OPA)	41.9	38.1	0.4	0.4	Drone inspections and asset deficiency identification
Non-traditional Fault Detectors	0	20.3	0	0	Improved fault detection and system monitoring
Substation Safety Settings	6	20.9	0	0	Enhanced substation protection settings
Line Rebuild (Covered Conductor)	0	18.1	—	—	System hardening in higher-risk areas
Line Rebuild (Small/Open Wire)	0	15.7	—	—	Replacement of vulnerable conductor lines
Vegetation Management (Total)	14.8	45	2.2	3.4	Enhanced clearance standards and wildfire corridor work

The Company noted the following were its significant adjustments in the wildfire mitigation program:

- Vegetation Management Capitalization: Xcel proposed capitalizing approximately \$84 million of the total \$90 million vegetation management costs, arguing the work constitutes a substantial addition necessary to support new wildfire mitigation infrastructure.
- AI Cameras: Planned installation of 15 cameras in 2025 and 23 in 2026 to improve smoke and wildfire detection coverage in high-risk areas.

- Weather Stations: Deployment of 109 weather stations total, including 45 in 2025 and 64 in 2026, to improve localized weather monitoring and wildfire forecasting.
- FireSight Subscription: Added approximately \$0.7 million for advanced wildfire spread, asset failure, and risk reduction modeling software.
- GRIP Federal Funding: Xcel received \$4.4 million in federal GRIP funding for fire-spread modeling software, with potential reimbursement of \$1.8 million to be returned to customers through an appropriate mechanism.

3. Department of Commerce – Direct

The Department raised concerns regarding the overall scale and cost-effectiveness of Xcel’s proposal, noting that the Company had not performed a formal cost-effectiveness analysis. The Department evaluated Xcel Energy’s wildfire mitigation proposal, arguing that Minnesota’s wildfire risk is relatively low compared to national levels and that the Company had not adequately justified its large-scale spending request. The Department recommended a more limited, “highest-risk first” approach that focused major mitigation programs such as Enhanced Powerline Safety Settings (EPSS) and Overhead Pole Assessments (OPA) only in Tier 3, or highest-risk, areas during the 2025–2026 period. The Department argued that Xcel should first collect additional data on defect rates, wildfire risks, and program effectiveness before expanding mitigation investments statewide.⁵⁰⁶

The Department questioned the cost-effectiveness of Xcel’s proposed wildfire mitigation portfolio, particularly the large-scale Wildfire Corridor vegetation management program.⁵⁰⁷ The Department provided cost-benefit analysis estimated an extremely low benefit-cost ratio, initially 0.02 and later revised to 0.04, to support recommendations for significantly reduced spending levels. A major dispute involved Xcel’s proposal to capitalize vegetation management costs. Borden argued that intensive initial vegetation clearing associated with wildfire mitigation projects should remain classified as O&M expenses rather than capital additions. The Department conducted its own analysis and concluded that Xcel’s proposed wildfire mitigation plan would provide approximately \$27.7 million in risk reduction benefits at a projected ratepayer cost of roughly \$790.7 million. The Department supported foundational and situational awareness measures, but recommended scaling back major programs by limiting EPSS and OPA implementation to Tier 3 high-risk areas, reducing the scope of line rebuild and vegetation management programs, and treating vegetation management expenses as O&M rather than capital investments.⁵⁰⁸ The Department also questioned Xcel’s assumption that 50 percent of poles inspected through the OPA program would require remediation, noting that the estimate relied heavily on Colorado data that might not reflect Minnesota conditions. In addition, the Department recommended further evaluation of non-traditional fault detector costs before proceeding with broad deployment.

Based on the above concerns, the Department recommended substantially lower funding levels than Xcel’s revised request, proposing approximately \$48.06 million in cumulative capital

⁵⁰⁶ DOC, Borden Direct, at 13-19

⁵⁰⁷ Id., at 20-28

⁵⁰⁸ DOC, Borden Direct 30-45

additions and about \$9.19 million in annual O&M expenses for wildfire mitigation. Table 56 below reflects the Department recommended adjustments related to Wildfire Mitigation costs in detailed.

Table 56. Department vs. Xcel Forecast Adjustments for Wildfire Mitigation Capital Additions and O&M Expense Reclassification of Select Categories (\$ Million)⁵⁰⁹

Adjustment Category and Year	Xcel		Synapse		Department-Xcel Adjustment	
	2025	2026	2025	2026	2025	2026
EPSS Capital Additions (sub, line, fault detection, SCADA)	\$28.70	\$110.40	\$15.61	\$3.80	(\$13.09)	(\$106.60)
EPSS O&M Increase for Vegetation Management	N/A	N/A	\$3.93	\$3.93	\$3.93	\$3.93
OPA Capital Additions	\$41.90	\$38.10	\$9.00	\$0.00	(\$32.90)	(\$38.10)
OPA O&M Increase for Vegetation Management	N/A	N/A	\$5.26	\$5.26	\$5.26	\$5.26
Line Rebuild & Pole Replacement Capital Additions	\$0.00	\$39.30	\$0.00	\$19.65	\$0.00	(\$19.65)
Total Capital Additions (Reduction)	\$70.60	\$187.80	\$24.61	\$23.45	(\$45.99)	(\$164.35)
Total O&M Expense Increase	N/A	N/A	\$9.19	\$9.19	\$9.19	\$9.19

4. Joint Intervenors – Direct and Surrebuttal

The Joint Intervenors (JIN) witness, William D. Kenworthy, supported the importance of Xcel Energy's wildfire mitigation efforts but argued that the Company's proposed spending levels were premature and lacked sufficient analytical support. JIN described Xcel's wildfire mitigation plan as a necessary and constructive step given the public safety risks associated with wildfires and commended the Company for developing a Minnesota-specific wildfire risk record. However, JIN maintained that the Commission should not approve large-scale capital investments until Xcel completes a more rigorous and utility-specific risk assessment. A primary

⁵⁰⁹ DOC, Boren Direct, Table 5, at 47 and Data from Ex. DOC-9 (Borden Direct) at EB-D-5 (Xcel Response to DOC IR 2148, Attachment B Supplement and Attachment C Supplement) and Adjustments calculation

concern raised by JIN was that Xcel established its wildfire mitigation budgets before completing its operationalized wildfire risk map and Minnesota-specific risk modeling. JIN argued that this “cart before the horse” approach could lock ratepayers into costly technologies and investment levels before the Company fully understands which mitigation strategies are most effective. JIN also objected to the Company’s significant shift from O&M expense treatment to capitalization of vegetation management costs, arguing that routine maintenance activities should remain expensed rather than included in rate base to earn a return.

JIN further criticized the lack of a completed Risk Spend Efficiency (RSE) analysis, stated that Xcel had not adequately compared the effectiveness of different wildfire mitigation strategies or evaluated wildfire risk relative to other reliability and safety threats facing Minnesota, such as tornadoes and severe weather. In addition, JIN characterized Xcel’s wildfire risk map as a high-level exposure tool that did not yet provide detailed analysis of individual distribution assets or infrastructure-specific ignition risks.

JIN recommended that the Commission rely on the Integrated Distribution Plan (IDP) process to evaluate and prioritize wildfire mitigation investments. JIN argued that the IDP proceeding is the appropriate forum to compare wildfire mitigation needs against other system priorities and to assess competing technologies, such as covered conductor installations versus sectionalizing strategies. Although JIN opposed Xcel’s full request, it supported the Department’s recommendation to approve limited investments focused on the highest-risk Tier 3 areas during 2025 and 2026 as a reasonable first step. JIN suggested that the Commission to require comparative risk analysis and to avoid “grandfathering” specific technologies through early approvals before a more comprehensive evaluation of alternatives occurs in the IDP process.

5. Xcel Energy – Rebuttal

Xcel Energy’s rebuttal testimony, the Company’s witnesses explained on the technical design, cost assumptions, and accounting treatment of the Company’s wildfire mitigation proposal against criticisms raised by the Department of Commerce and Joint Intervenors.

The Company witness, Bloch, explained the use of non-traditional fault detectors as necessary tools to improve the effectiveness of Enhanced Powerline Safety Settings (EPSS). Drawing on pilot projects in Colorado and Texas, the witness explained that these sensors identified mechanical equipment issues, such as leaning poles and failed insulators, that traditional monitoring systems would not detect, thereby helping prevent potential wildfire ignitions. Bloch also defended the Company’s budget assumptions, stating that Xcel relied on detailed unit cost estimates and historical data, including Colorado experience for specialized wildfire mitigation equipment not yet widely deployed in Minnesota. She further justified the assumption that 50 percent of poles inspected through the Overhead Pole Assessment (OPA) program would contain defects requiring remediation. In addition, Bloch maintained that a wider 10-foot vegetation clearance standard was necessary for EPSS-enabled lines because the increased sensitivity of those systems could otherwise lead to frequent unnecessary outages if vegetation encroachment remained at standard clearance levels.⁵¹⁰

⁵¹⁰ Xcel, Bloch Rebuttal

Witness McGregor's Rebuttal addressed criticisms related to wildfire risk modeling and operational mitigation strategies. He argued that EPSS and Public Safety Power Shutoffs (PSPS) are complementary rather than redundant tools. According to McGregor, EPSS allows electric lines to remain energized during elevated wildfire conditions by rapidly isolating faults, while PSPS serves only as a last-resort de-energization measure during extreme risk events. He also noted that investments supporting EPSS, such as sectionalization and grid modernization, improve the Company's ability to conduct smaller and more targeted PSPS events when necessary. McGregor criticized the Department's reliance on the FEMA National Risk Index, arguing that it understated the potential for catastrophic wildfire events because it failed to capture "tail risk," or low-probability but high-consequence wildfire scenarios. To demonstrate this concern, he referenced wildfire risk assumptions derived from Hawaiian Electric experience and argued that using more aggressive catastrophic risk modeling increased the projected benefit-cost ratio of Xcel's wildfire mitigation proposal to approximately 1.69, compared to the Department's estimate of 0.02. McGregor also opposed delaying wildfire mitigation investments until a future Integrated Distribution Plan proceeding, asserting that foundational wildfire mitigation work is an urgent safety priority requiring immediate action.⁵¹¹

Witness Moeller's rebuttal testimony focused on defending the Company's accounting treatment for wildfire vegetation management costs. Moeller argued that the initial intensive vegetation clearing associated with EPSS and OPA implementation should be capitalized under FERC Account 365 because it represents an initial cost directly attributable to installing and operating new capital assets. He cited a 2024 FERC order involving Pacific Gas and Electric that recognized vegetation management costs may be capitalized when they constitute a substantial addition to plant that improves operational efficiency or effectiveness. Moeller asserted that establishing wider 10-foot wildfire mitigation corridors is necessary to ensure that new EPSS relays and reclosers operate properly without causing repeated outages. He also clarified that only the initial establishment of the enhanced vegetation corridors would be capitalized, while routine ongoing vegetation maintenance would continue to be treated as O&M expense.⁵¹²

6. Department of Commerce – Surrebuttal

In its surrebuttal, the Department maintained that Xcel Energy's large-scale wildfire proposals remain inadequately supported and recommended focusing investment only on the highest-risk areas while collecting better data. The Department continued recommending the Company to reduce capital additions and increase annual O&M expenses in both 2025 and 2026. These changes would increase the 2025 revenue requirement by approximately \$6.3 million and reduce the 2026 revenue requirement by approximately \$8.3 million compared to Xcel's rebuttal position.

⁵¹¹ Xcel, McGregor Rebuttal, Entirety

⁵¹²

7. Xcel Correspondent

On December 12, 2025 Xcel Energy informed the Commission and parties that it is revising its position on wildfire-related costs for the 2025 test year and 2026 plan year ahead of the evidentiary hearing to help narrow disputed issues and improve hearing efficiency. After reviewing the Minnesota Department of Commerce's surrebuttal testimony, Xcel agreed that the Department's proposed costs for larger-scale wildfire mitigation programs are reasonable for inclusion in rates. The Department recommended approximately \$48.06 million in wildfire-related capital investments for 2025 and 2026 combined, along with about \$9.19 million in annual wildfire-related O&M expenses. These recommendations would increase the 2025 revenue requirement by \$6.3 million and decrease the 2026 revenue requirement by \$8.3 million compared to Xcel's rebuttal position.

Xcel agreed that implementing both foundational wildfire mitigation measures and larger-scale mitigation programs in higher-risk areas is important. The Company stated that accepting the Department's proposed cost levels will allow near-term wildfire mitigation work to move forward while Xcel continues developing enhanced wildfire risk modeling to better inform future mitigation efforts.

8. ALJ Report

The ALJ found:

191. Implementing the Department's recommendations would reduce capital additions by \$45.99 million in 2025 and \$164.35 million in 2026, and increase O&M expense by \$9.19 million in both 2025 and 2026. Together, this would result in a \$6.3 million increase in the 2025 test year revenue requirement and a \$8.3 million decrease in the 2026 plan year revenue requirement compared to Xcel's rebuttal testimony position.

192. The Joint Intervenors recommended that the Commission defer approval of any wildfire mitigation costs until Xcel completes its Minnesota-specific wildfire risk assessment, compares wildfire risk to other system risks, and integrates findings into its 2025 Integrated Distribution Plan (IDP).

193. Prior to the evidentiary hearing, the Company agreed to the Department's proposal for this proceeding, and further indicated an interest in developing additional mitigation practices as its understanding of wildfire risk increases with enhanced risk modelling currently under development. The Joint Intervenors supported this resolution.

194. The Department's proposal, agreed to by the Company, is reasonable. The Commission should implement the Department's proposed reduction to the 2025 Test Year and 2026 Plan Year revenue, and approve cost recovery of the smaller-scale and foundational programs consistent with the Department's recommendation.

9. Staff Analysis

Staff notes that the Department, supported by members of JIN, has proposed an extensive set of recommendations in Xcel Energy's 2025 Integrated Distribution Plan (Docket E002/M-25-142) related to the development of a Wildfire Mitigation Plan that would be reviewed as part of future IDPs. The Department's IDP recommendations encompass JIN's recommendations here. Therefore, Staff recommends that the Commission modify JIN's recommendation to adopt development of a wildfire mitigation plan for Xcel, but direct development of the contents of the plan to Xcel's 2025 IDP instead of the rate case to avoid unnecessary duplication between processes. The IDP is expected to be before the Commission later this summer.

10. Decision Options

1138 Approve Xcel's proposed adjusted \$48.06 million of larger-scale wildfire-related capital additions for the 2025 test year and 2026 plan years combined, with approximately \$9.19 million in annual wildfire-related O&M expenses of wildfire-related operations. (Xcel, Department, JIN, ALJ)

1139 Require Xcel to develop a Wildfire Mitigation Plan, the details of which shall be decided as part of Xcel Energy's 2025 Integrated Distribution Plan. Require the Company to use its Wildfire Mitigation Plan to justify future wildfire investment proposals. (Staff)

U. Wildfire Mitigation Pole Loading Clearance (PLC) Update

1. Issue

Should the Commission approve Xcel's adjusted budgets for capital and O&M costs related to the Pole Loading Clearance (PLC) program?

2. Xcel Energy – Direct, Supplement Direct and Rebuttal

In its Direct testimonies,⁵¹³ the Company proposed amount for the Pole Loading Clearance (PLC) program budget. However, its Supplemental Direct, according to the Company witness, the adjusted the 2025-2026 MYRP to reflect the impact of the completed operational wildfire risk map and overall refinements to the Company's wildfire mitigation actions since the Company filed Direct Testimony⁵¹⁴. Xcel also explained that there were discrepancies between schedules submitted in Company witness Sherwood and Bloch's Supplemental Direct vs the current Xcel's MYRP budget amounts for wildfire mitigation which should reflect an adjustment of \$1.4 million in revenue requirement⁵¹⁵. The Company said its rebuttal revenue requirement now

⁵¹³ Xcel, Sherwood Supplemental Direct, at 2-4 and Bloch Supplemental Direct at 24-25

⁵¹⁴ Xcel, Halama Supplemental Direct, at 5

⁵¹⁵ Xcel, Bloch Supplemental Direct, at 24 – Footnote #4 *“The budget amounts for PLC shown in Tables 7 and 8 are less than the amounts currently reflected in the revenue requirement*

reflects the revision to the PLC budget Supplemental Direct as the Company updated the budget for its Pole Loading Clearance (PLC) program budget.⁵¹⁶

3. Department of Commer – Surrebuttal

The Department reviewed and agreed with the Company’s proposed adjustment.⁵¹⁷

4. ALJ Report

The ALJ found:⁵¹⁸

199. The Company’s adjustment to reflect the PLC program update is reasonable and should be approved by the Commission, as agreed to by the Company and the Department.

5. Decision Options

1140 Approve Xcel’s adjusted budgets for capital and O&M costs related to the Pole Loading Clearance (PLC) program. (Xcel Energy, ALJ, Department)

V. Research and Experimentation Federal and State Tax Credits

1. Issue

Should the Commission approve Xcel’s appropriate adjustment to the Research and Experimentation (R&E) Federal and State Tax Credits?

2. Xcel Energy – Direct and Rebuttal

Xcel proposed Research and Experimentation (R&E) Federal Tax Credits in the amount of \$4.5 million (Minnesota Electric jurisdiction) in the 2025 test year and the 2026 plan year. Xcel also proposed Minnesota R&E tax credits in the amount of \$1.1 million Minnesota Electric jurisdiction) in the 2025 test year and 2026 plan year⁵¹⁹ using an adjusted average of the qualified research expenses (QREs) for tax years 2020 through 2022.

In its rebuttal testimony, Xcel stated that Department agreed with the Company’s method of using an adjusted average of QREs but did not agree with the Company’s use of the averages

schedules presented in the Supplemental Testimony of Company witness Halama. The capital amount currently in the revenue requirement for 2026 is \$5.6 million versus the \$1.4 million in Table 7 and the O&M amount in the revenue requirement for 2026 is \$1.4 million versus the \$0.4 million in Table 8. The rebuttal revenue requirement will reflect these recent refinements to the PLC budget shown in Tables 7 and 8.”

⁵¹⁶ Xcel, Halama Rebuttal, at 29 and Schedule 3A-3B pg. 4, row 84, column 35

⁵¹⁷ DOC, Johnson Surrebuttal, at 31-32 and Schedule 1

⁵¹⁸ ALJ Report, at 25

⁵¹⁹ Xcel Initial, Vol. 4, MYRP Workpapers, III. P8-2 (Other Tax Credits) at 1

from 2020 through 2022 to forecast the 2025 test year and 2026 plan year amounts. The Department's approach would result in an adjustment in federal R&E tax credits by \$1.0 million and state R&E tax credits by \$269,000 in both 2025 and 2026⁵²⁰. The Company disagreed with the Department's recommendation to increase the 2025 test year and 2026 plan year federal and state R&E tax credits, maintaining that its forecast is reasonable and appropriately reflects expected credit levels. In response to Information Request No. 2166, the Company provided an updated calculation based on a three-year average but noted that the Department's approach relies on a weighting that does not incorporate 2024 actuals and therefore overemphasizes earlier years, making it less reasonable.⁵²¹

The Company further stated that it disagreed with the Department's calculation of the adjustment and noted that the Department initially calculated the adjustment on an NSPM total company basis rather than a Minnesota jurisdictional basis. The corrected Minnesota jurisdictional adjustments are approximately \$396,000 for the federal R&E credit and \$98,000 for the state R&E credit, as reflected in Schedule 4 of its rebuttal testimony⁵²².

3. Department of Commerce – Direct and Surrebuttal

The Department initially recommended the Company using an adjusted average of the QREs based on the most recent actuals from 2022 and 2023, and an updated forecast for 2024 based on a 3-year average of 2021-2023 actuals⁵²³. The Department presented the result of using its suggested approach would increase federal R&E tax credits by \$1.0 million and state R&E tax credits by \$269,000 in both 2025 and 2026.⁵²⁴

In its Surrebuttal, after reviewing the federal and Minnesota R&E credit averages for 2022 through 2024 adjustments provided by the Company, the Department concluded that they are closely aligned with the 2025 and 2026 test year credits⁵²⁵. The Department concluded that the Company's initial calculations were reasonable.

4. ALJ Report

The ALJ Found:⁵²⁶

146. The Company's test year and plan year amounts for R&E tax credits are reasonable and should be approved by the Commission.

⁵²⁰ Xcel, Halama Rebuttal, at 39

⁵²¹ Xcel, Halama Rebuttal, at 40 and Ex. DOC-7, Schedule AU-D-1 (Uphus Direct), and IR No. 2166

⁵²² Xcel, Halama Rebuttal, Exhibit (BCH-3), Schedule 4, pg. 1

⁵²³ DOC, Schedule AU-D-1 at 45-46 (Uphus Direct) and IR No. 2166.

⁵²⁴ DOC, Uphus Direct, at 14 (Table 3-4 – Trade Secret)

⁵²⁵ DOC - Uphus Surrebuttal, pg. 6

⁵²⁶ ALJ Report at 36

5. Staff Analysis

Staff notes, the Department had no disagreement with Company's corrected adjustment. Staff concurs that this issue is resolved.

6. Decision Options

1141 Approve Xcel's adjustment for the Research and Experimentation (R&E) Federal and State Tax Credits in the amount of approximately \$396,000 for the federal R&E credit and \$98,000 for the state R&E credit. (Xcel, Department, ALJ)

W. North Dakota Investment Tax Credits

1. Issue

Should the Commission approve Minnesota portion of the North Dakota Investment Tax Credit forecast in the revenue requirement calculation?

2. Xcel Energy – Direct

The North Dakota Investment Tax Credit (NDITC) is an income tax credit for qualified North Dakota investments. Xcel is required to credit its Minnesota ratepayers for the proportionate share of used NDITC associated with the Courtenay Wind project, based on the pro-rata share of the costs of the Courtenay Wind project charged to Minnesota ratepayers⁵²⁷. Consistent with the order in the last rate case, North Dakota investment tax credits are included in the MYRP Forecast. The supporting adjustment of NDITC is provided by Xcel in Volume 4⁵²⁸ resulting in the calculation of 2025-2026 revenue requirement reductions in the Renewable Energy Standards (RES) rider in the amount of \$ 320,990 and \$ 336,509 respectively.

3. Department of Commerce – Direct

Xcel provided the forecast that identified the revenue requirement offset for 2025 and 2026, but the Department recommended reducing the Company's proposed revenue requirements for Minnesota Electric Jurisdiction and proposed using the updated NDITC forecast {Trade Secret}, because the Department stated this updated forecast would bring more accuracy.⁵²⁹

4. Xcel Energy – Rebuttal

Xcel did not agree with the Department's adjustment to make any changes in forecasted credit amount and revenue requirements. Xcel stated that the Department IR No. 1196 did not provide an updated forecast rather, it just showed the revenue requirement associated with

⁵²⁷ Docket No. E002/M-15-805

⁵²⁸ Xcel Initial - Volume 4, Section III Rate Base (Plant), Subpart P8-2, Other Tax Credits

⁵²⁹ DOC - Uphus Direct (Trade Secret), pg. 10

the North Dakota ITC included in the Company's Direct Testimony. Hence, the forecasted credit amount and the revenue requirements remain unchanged.⁵³⁰

5. Department of Commerce – Surrebuttal

The Department agreed with Xcel's rebuttal considering no adjustment is needed, the issue is resolved

6. ALJ Report

The ALJ Found:⁵³¹

205. The North Dakota Tax Credits reflected in the Company's Initial Filing for 2025 and 2026 are reasonable and should be approved by the Commission.

7. Decision Options

1142 Approve Xcel to include its initial proposed North Dakota investment tax credits (ITC) in 2025 test year and 2026 plan year. (Xcel, Department, ALJ)

X. Distribution Communications Infrastructure

1. Issue

Should the Commission approve Xcel's proposed budget for its Distributed Communications Infrastructure (Fiber Build-out project) for 2025 test year and 2026 plan year?

2. Xcel Energy – Direct

Xcel stated that telecom carriers are phasing out legacy analog WAN and replacing it with Ethernet or broadband services. Although these are high bandwidth, Xcel indicated that they failed to meet the Company's acceptable performance requirements. Therefore, Xcel budgeted \$9.6 million in 2025 and \$10.6 million in 2026 for the "Fiber Buildout Program and Projects". In some locations, the Company would connect fiber to a leased fiber segment used solely by Company.⁵³²

3. Joint Intervenors – Direct

The Joint Intervenors witness William D. Kenworthy noted that Xcel proposed to reducing reliance on third-party WAN services by extending Company owned fiber to distribution substations and creating a private network pathway through ownership of additional fiber assets. However, the intervenors opposed cost recovery for these investments and claimed there was an absence of quantitative WAN performance targets (e.g., latency, jitter,

⁵³⁰ Xcel - Halama Rebuttal, pg. 41-42

⁵³¹ ALJ Report at 36

⁵³² Ex. Xcel-34 at 102-03 (Mensen Direct).

determinism, failover or availability) against which third-party options could be tested. The intervenors therefore requested additional information from Xcel.

4. Xcel Energy – Rebuttal

Xcel provided the intervenors with additional information to aid their understanding of the proposed fiber build-out and related budget.

5. Joint Intervenors – Surrebuttal

The Joint Intervenors dropped their opposition to fiber build-out investments after review of the additional information that was provided to them on the proposed project and stated that Company’s approach appeared to be a reasonable and appropriately targeted deployment of fiber-based communications.⁵³³

6. ALJ Report

The ALJ Found⁵³⁴

210. The fiber buildout projects proposed in the MYRP are reasonable and the Commission should allow Xcel to recover these investments in rates.

7. Decision Options

1143 Approve Xcel’s proposed budget for its Distributed Communications Infrastructure (Fiber Build-out project) in the amount of \$9.6 million in 2025 test year and \$10.6 million for 2026 plan year. (Xcel, JIN, ALJ)

Y. Bad Debt Expense Adjustment

1. Issue

What should the Commission allow for Bad debt expense ratio and estimated bad debt expense levels for 2025 Test Year and 2026 Plan Year?

2. Xcel Energy – Direct

The Company’s calculation for 2025 bad debt expense was generated during the budget process and was based on projected revenues multiplied by the bad debt ratio for NSPM. The Company performed analysis to update the bad debt expense based upon the revenue deficiency in the 2025 Test Year and 2026 Plan Year. The Company stated that an adjustment is needed to incorporate the updated bad debt amount into revenue requirement for test and plan years.

⁵³³ Ex. JIN-4 at 17-18 (Kenworthy Surrebuttal).

⁵³⁴ The ALJ Report at 37.

Xcel Energy calculated commodity bad debt for Minnesota jurisdiction of \$19.2 million for 2025 Test Year and \$21.4 million for 2026 Plan Year. The revenue ratio proposed for 2025 is 0.50 percent and for 2026 it is 0.53 percent.⁵³⁵

3. Department of Commerce – Direct

The Department calculated ratio of .045 percent using a three-year historical average for 2022-2024. With the Departments factor revenue adjustment of (\$1.8) million for 2025 and (\$1.3) million for 2026.⁵³⁶

4. Xcel Energy – Rebuttal

Xcel Energy disagreed with the factor used by the Department, as the year 2022 was an outlier. Forecasted bad debt expense is tied to measurable forecast actions for 2025 Test Year and 2026 Plan Year. The appropriate forecasted bad debt ratios for 2025 and 2025 rather than historic averages.

5. Department – Surrebuttal

The Department agreed with Xcel Energy's calculations of bad debt ratios.

6. Administrative Law Judge

The ALJ Found:⁵³⁷

216. The Company's forecasted bad debt ratios for 2025 and 2026 of 0.50 percent and 0.53 percent are reasonable and should be approved by the Commission, as agreed to by the Company and the Department.

7. Resolution

The Company and Department agreed on the Company's bad debt expense ratio and estimated bad debt expense levels for 2025 and 2026.

8. Decision Options

1144 Approve Xcel Energy's bad debt expense ratios and bad debt expense levels of \$19.2 million for 2025 Test Year and \$21.4 million for 2026 Plan Year. (Xcel, Department, ALJ)

⁵³⁵ Xcel –38 at 41 (Lindgren Direct)

⁵³⁶ DOC –23 at 20 (Jones Direct)

⁵³⁷ ALJ Report at 37

1145 Reject Xcel Energy's bad debt expense ratios and bad debt expense levels for 2025 Test Year and 2026 Plan Year.

Z. Sales True-up

1. Issue

Should the Commission approve Xcel's proposal for the 2026 sales true-up with no changes in design from the true-up approved in its last MYRP?

2. Xcel Energy – Direct

Xcel proposed a true-up of the Company's 2025 sales using actual weather normalized sales and customer counts in the final 2025 test year present revenue and deficiency calculations, following 2015 rate case filing Docket No. E002/GR-15-826, which was further extended in rate cases Docket Nos. E002/M-19-688, E002/M-20-743 and E002/GR-21-630.

As noted in the Company's direct testimony⁵³⁸, the Company made a compliance filing on February 01, 2026, confirming total Test year forecasted sales for January-December 2025 as 28,309,961 megawatt hours (MWh). Actual weather normalized retail sales were 28,106,886 MWh, a difference of 203,075 MWh which is about 0.7 percent below the Company's initial forecast. The total actual retail customer count for this period was 1,389,339 customers, a difference of 2,666 customers, or a 0.2 percent below the Company's initial forecast of 1,392,004. This true up would result in a surcharge.

Company also proposed to continue the sales true-up rider mechanism for 2026, modeled after the sales true-up rider effective in 2024. The sales true-up rider mechanism establishes a rate adjustment to offset annual differences between base rate revenue authorized by the Commission and actual base rate revenue. If the actual base revenues are greater than the amount used by the Commission to establish rates, the difference will be deferred as a regulatory liability and refunded to customers. Conversely, if the actual base revenues are lower than the authorized amount, the difference will be deferred as a regulatory asset and collected from customers. There is no limit on refund levels but a three percent cap applies to surcharge levels.

The sales true-up calculation methodology would be as follows:

1143 Forecasted base revenues for 2025 will be calculated using 2016 weather normalized actual sales by class and current base rates (effective June 1, 2019, which included reduction for the 2017 Tax Cut and Jobs Act (TCJA)).

1144 Actual revenues for 2025 will be calculated using 2025 actual customer counts and actual sales and current base rates (effective June 1, 2019, including the reduction for TCJA).

⁵³⁸ Xcel, Levine Direct, at 14

1145 The 2025 revenue comparison will include the same Commercial & Industrial (C&I) class sales growth as assumed in 2018 – 2024.

1146 Any over / under collections from the 2025 decoupling and sales true-up mechanisms will be included with the 2026 results.

1147 The true-up will include all discounts and incentive rates approved by the Commission in other proceedings.

1148 After 2025 actual sales are available in 2026, the Company will provide the actual 2025 customer counts, sales, and resulting revenues by class for all classes in a compliance filing consistent with the method used in Docket No. E-002/GR-15-826. This will be filed on February 01, 2026.

1149 If 2025 revenues are greater than the approved plan year level, the difference will

1150 be deferred as a regulatory liability and refunded to customers. If 2025 is lower than the approved plan year level, the difference will be deferred as a regulatory asset and collected from customers. A refund or surcharge will be calculated for each class based on the deferral amount and the current sales forecast. These factors will be placed on customer bills effective June 1, 2027, for 12 months.

3. Department of Commerce – Direct

The Department agreed⁵³⁹ with Xcel’s 2026 sales true-up proposal, provided there are no changes from what the Commission approved in Xcel’s last MYRP.

4. Xcel Energy – Rebuttal

Xcel confirmed that its proposal is identical to the sales true-up that was approved in the Company’s last rate case in E002/GR-21-630.⁵⁴⁰

5. Department of Commerce – Surrebuttal

The Department recommended the Commission to approve Xcel’s sales true-up proposal.⁵⁴¹

6. ALJ Report

The ALJ Found:⁵⁴²

270. The 2026 Sales True-Up, as agreed to by the Company and Department, is reasonable and should be approved by the Commission.

⁵³⁹ DOC, Bahn Direct, at 17

⁵⁴⁰ Xcel, Paluck Rebuttal, at 19

⁵⁴¹ DOC, Bahn Surrebuttal, at 4

⁵⁴² ALJ Report at 46

7. Decision Options

1146 Approve Xcel's proposal to continue its Sales True-Up during this MYRP. (Xcel, Department, ALJ)

AA.Capital True Up

1. Issue

Should the Commission approve Xcel's proposed capital true-up with no changes in design from the true-up approved in the last MYRP?

2. Xcel Energy – Direct

Xcel proposed a capital true-up designed in conformance with that used in their prior MYRPs . Under this mechanism, the Company will provide a refund to customers if the Company's actual capital-related revenue requirement falls below the Commission approved capital related revenue requirements, but it will not surcharge customers if the reverse is true.⁵⁴³

3. Department of Commerce – Direct

The Department agreed that the Company's proposal appears consistent with Xcel's previous capital true-up which was approved by the Commission.⁵⁴⁴

4. Xcel Energy – Rebuttal

Xcel acknowledged the Departments agreement with the proposal.⁵⁴⁵

5. ALJ Report

The ALJ Found:⁵⁴⁶

274. The Capital True-Up, as agreed to by the Company and Department, is reasonable and should be approved by the Commission.

6. Staff Analysis

No other party commented or took a position on the Company's proposed capital true-up for the 2025-2026 MYRP. Accordingly, this issue is resolved.

⁵⁴³ Xcel, Liberkowski Direct, at 40

⁵⁴⁴ DOC, Johnson Direct, at 52

⁵⁴⁵ Xcel, Halama Rebuttal, at 64

⁵⁴⁶ ALJ Report at 46

7. Decision Options

1147 Approve Xcel's proposed capital true-up mechanism. (Xcel, Department, ALJ)

BB. Property Tax True Up

1. Issue

Should the Commission approve Xcel's proposal for a Property Tax True-Up with no changes in design from the true-up approved in the last MYRP?

2. Xcel Energy Direct

Xcel proposed to continue its property tax true-up mechanism that was approved in last several electric and gas rate cases.⁵⁴⁷

3. Department of Commerce – Direct

The Department agreed that the property tax true-up should be extended though the duration of this MYP, and stated that the Company is not allowed to recover property tax expense that exceeds 5% of the Commission approved amount to be included in the MYRP⁵⁴⁸.

4. Xcel Energy – Rebuttal

Xcel agreed that it would be reasonable to continue the Company's property tax true-up mechanism but did not agree with the imposition of 5 % cap on recovery for the true-up should final property taxes end up being five percent higher than the baseline approved by the Commission⁵⁴⁹. A cap on under-recovery but not on over-recovery makes the true-up mechanism asymmetrical and would thus change the nature of the true-up mechanism that has been approved and implemented multiple times by the Commission since the Company's 2015 MYRP (Docket No. E002/GR-15-826).

Xcel also referred to its proposal to submit an annual compliance filing by July 1 each year would inform the Commission of the finalized property tax expense. For 2025, the filing would be submitted by July 1, 2026. As in every year since 2020, the Department and other stakeholders would have the opportunity to comment and make recommendations, and the Commission would decide on the implementation of the true-up

5. Department of Commerce – Surrebuttal

The Department agreed with the Company's stance that imposing five percent cap on over recovery would result in an asymmetrical true up based on factors outside of Company's

⁵⁴⁷ Xcel, Liberkowski Direct, at 40 - 41

⁵⁴⁸ DOC, Jones Direct, at 12-13

⁵⁴⁹ Xcel, Kowalowski Rebuttal, at 20 - 23

control and recommended the property tax true-up mechanism without the five percent limitation.⁵⁵⁰

6. ALJ Report

The ALJ Found:⁵⁵¹

274. The Company's proposed property tax true-up process is reasonable and should be adopted by the Commission.

7. Decision Options

1148 Approve Xcel's proposal to continue its Property Tax True-Up mechanism during this MYRP. (Xcel, Department, ALJ)

CC. Coal Combustion Residuals (CCR) Tracker

1. Issue

Should the Commission approve Xcel's proposed CCR Tracker expenses?

2. Xcel Energy – Direct

Xcel noted of amended U.S. Environmental Protection Agency (EPA) regulations under the Resource Conservation and Recovery Act (RCRA), which govern how coal ash is managed from inception to disposal at active landfills and impoundments, including management of CCR at previously closed or dormant sites. In turn, the amended regulations have led to an increased number of sites subjected to them, as well as increased costs with the management at those sites.

Xcel indicated that the revised EPA rules became effective in November 2024, and are referred to as the Legacy CCR rule, which covers Legacy CCR surface impoundments and CCR management units (CCRMU), in addition to groundwater monitoring. Xcel noted that these regulations require ongoing monitoring after site closure for up to a 30-year period. Xcel currently owns three coal generation units, and noted their retirement dates as follows:

- Sherco Unit 1: December 31, 2026;
- Sherco Unit 3: December 31, 2030; and
- King: December 31, 2028.

The Company indicated that the exact number of past and present regulated units that will trigger this additional assessment, monitoring and remediation are not yet known. However, the initial number of sites where evaluation must be conducted is approximately 35.

⁵⁵⁰ DOC, Jones Surrebuttal, at 4-5

⁵⁵¹ ALJ Report at 47

In summary, the Legacy CCR Rule defines a systematic approach to CCR that begins with an initial investigation, which may lead to final remediation and closure in some cases.

Xcel indicated that initial groundwater monitoring costs associated with the implementation for a Legacy Surface Impoundment or CCRMU can range initially from \$0.2-\$0.8 million or more and are dependent upon site-specific characteristics. Additionally, Xcel anticipated the costs for desktop-type reviews of the 35 current and former facilities to range between \$4 to \$6 million between 2025-2026. The Company further indicated that facilities with groundwater impacts would be subject to additional unknown costs to meet groundwater protection standards.

Xcel indicated that the CCR related costs have typically been included in decommissioning costs as part of the cost of removal component of net salvage for generating plants, which are recovered through depreciation rates.

Xcel planned to recover the costs under the current Asset Retirement Obligations process for existing assets. However, in instances where the assets no longer exist, and recovery is not available through standard depreciation scenarios, the Company proposed to develop a tracker for these costs to allow for review of prudence and recovery. Xcel indicated that the tracker was necessary given the uncertainty of costs to comply with the revised EPA rules, and ensures that only actual costs are recovered from customers.

Xcel proposed deferring and recovering costs over a future time period established in the current or a future rate case, with annual compliance filings showing actual costs incurred and a proposed plan for recovery. Xcel recommended deferred accounting treatment for investigative and remediation costs associated with all inactive or closed sites, with the ability for the Commission to approve inclusion of other active sites if there is insufficient remaining life or cost of removal reserves to cover CCR associated costs.

3. Department of Commerce – Direct

The Department noted that while no costs related to the CCR compliance were included in Xcel's MYRP, the Company estimated approximately \$6 million in total costs, and noted of spending \$0.4 million through May 2025.⁵⁵² Additionally, Xcel would combine the refunds or deferrals from all annual compliance filings for various trackers and issue a net refund, or, if a deferral remained, the remaining amount would be applied to future year compliance refunds until the next MYRP.

The Department recommended approval of Xcel's proposal to recover Legacy CCR Rule compliance costs, as further changes and interpretation could lead to difficulty in forecasting costs, and the proposed tracker would avoid over-collection from ratepayers. However, the Department also recommended that Xcel provide adequate support for the Legacy CCR compliance costs, and exclude any internal labor costs, as they would not be considered

⁵⁵² Ex. DOC-5, ARG-D-7 (Golden Direct) (Xcel's response to DOC IR 140).

incremental costs in annual compliance filings, otherwise the request for recovery could be limited or denied

4. Xcel Energy – Rebuttal

Xcel agreed to provide supporting Documentation for any costs included in the CCR tracker in the July 1 Annual Report of Rate Case Approved True-Up Mechanism compliance filing.

However, Xcel disagreed with the Department’s recommendation to prohibit labor costs in the tracker on a wholesale basis due to the potential need to hire resources for CCR compliance, which represent incremental costs that would not be captured in Xcel’s forecasts.

Xcel noted that CCR rules require a series of steps for compliance, and sites that did not previously require remediation may need to be investigated. Therefore, Xcel indicated that current labor and resources may not be adequate to handle this workload and additional incremental resources may be needed.

Xcel contended that the labor costs would appropriately be included in the cost tracker.

5. Department of Commerce – Rebuttal

The Department continued to recommend approval of Xcel’s proposal to recover Legacy CCR Rule compliance costs through a tracker mechanism, and revised its previous recommendation on internal labor costs. Concurrently, the Department recommended that in its annual compliance filings Xcel should justify and support any incremental labor costs beyond internal labor costs and outside services already collected through rate case recovery.

6. ALJ Report

The ALJ noted the following in his findings:

292. The Commission should approve the Company’s requested CCR tracker and that require the Company to provide adequate support for any tracked expenses, including a justification as to how any labor costs included in the tracker are incremental to labor and outside services costs already collected through rate recovery.

7. Staff Analysis

Staff noted that the ALJ did not comment on whether Xcel should include the CCR tracker in its July 1 Annual Report of Rate Case Approved True-Up Mechanism compliance filing. However, as this issue is uncontested with the Company and Department, Staff determined it to be resolved.

8. Decision Options

1149 Approve Xcel’s proposal to establish a CCR Tracker to recover Legacy CCR Rule compliance costs, with cost estimates of \$6 million for 2025-2026. (ALJ, Xcel, Department)

1150 Approve Xcel's proposal to include the CCR tracker in its July 1 Annual Report of Rate Case Approved True-Up Mechanism compliance filing. (Xcel, Department)

DD. Bad Debt Expense Tracker

1. Issue

Should the Commission require Xcel Energy to use a bad debt tracker?

2. Xcel Energy – Direct

Xcel Energy proposed a bad debt tracker that would track actual annual costs until their next rate case. With the proposal the Company will submit a compliance filing to compare actual and MYRP amounts and provide refunds for over-recovery and deferral for under recovery.

3. Citizens Utility Board – Direct

CUB agreed with Xcel Energy in creating a bad debt tracker.

4. Energy Cents Coalition – Direct

ECC agreed with Xcel Energy in creating a bad debt tracker.

5. Administrative Law Judge

The ALJ Found:⁵⁵³

295. The proposed bad debt expense tracker, as agreed to by the Company, ECC, and CUB, is reasonable and should be approved by the Commission.

6. Resolution

The Bad Debt Tracker should be approved.

7. Decision Options

1151 Approve Xcel Energy's Bad Debt Tracker with yearly compliance filing. (Xcel, CUB, ECC)

1152 Reject Xcel Energy's Bad Debt Tracker

EE. Discrete Capacity Project Investments

1. Issue

Should the Commission approve the Company's 2025-2026 Discrete Capacity budget?

⁵⁵³ ALJ Report at 49

2. Xcel Energy – Direct

In its direct testimonies, Xcel explained that its Capacity project budget is developed through annual distribution planning, where peak load conditions on substations and feeders are evaluated and projects are selected using a risk-versus-cost approach. The 2025–2026 increase in capacity investments were driven mainly by a set of large discrete infrastructure projects scheduled for in-service during this period, particularly in 2026, along with broader grid reinforcement, feeder monitoring, and hosting capacity programs.⁵⁵⁴

The Company proposed the total capacity investments from about \$106.6 million in 2025 to \$206.2 million in 2026. This increase was primarily due to 12 large discrete projects (each generally exceeding \$6 million), most of which come online in 2026, as well as expanded grid reinforcement and new hosting capacity investments.⁵⁵⁵

These projects include major substation and feeder upgrades across Minnesota designed to address overloads, contingency risks, and support future load growth.⁵⁵⁶ Specifically, the Elm Creek Feeder extension to support load growth in Maple Grove, the Inver Hills and Prior Substation upgrades to address transformer and feeder risks and enable future expansion, and new or rebuilt substations such as Birch Area, Villard Area, Dayton/Knight, West Byron, and Stockyards. Overall, the investments are intended to improve system reliability, mitigate contingency and overload risks, and increase capacity for expected customer demand growth across multiple service areas.

3. Joint Intervenors (JIN) – Direct

In its direct testimony, JIN stated that Xcel’s explanation for the increase in Capacity spending is mainly based on timing. Xcel explained that the increase is due to 12 large projects planned during the MYRP period, with 9 projects going into service in 2026, along with additional Grid Reinforcement and Hosting Capacity investments. However, JIN argued that Xcel did not clearly show project-specific load forecasts or fully evaluate lower-cost alternatives before proposing the large increase in 2026 spending.

JIN also stated that, although Xcel uses a risk-versus-cost approach and defined project scopes, the Company did not show that each project was thoroughly compared against alternatives such as non-wires solutions or distributed energy resources. JIN recommended that the Commission require Xcel to review and prioritize these projects through the Integrated Distribution Plan (IDP) process to ensure more cost-effective options are considered.

⁵⁵⁴ Xcel, Mensen Direct, at 89

⁵⁵⁵ *Id.*

⁵⁵⁶ *Id.*, at 90-91

4. Xcel- Rebuttal

In its rebuttal, the Company argued that Joint Intervenors witness Kenworthy's recommendation to condition approval of the 2025–2026 discrete capacity projects on additional information in the 2025 IDP should be rejected. It explained that these projects have already been reviewed through the Company's established annual planning process, including the 2023 IDP and 2024 IDP Annual Update. Accordingly, those planning processes already evaluate project alternatives, costs, risk impacts, and potential non-wires solutions in line with Commission requirements. As a result, Xcel contended that further IDP-based conditions are unnecessary.⁵⁵⁷

5. Department of Commerce - Surrebuttal

After reviewing information presented in Rebuttal Testimony, the Department concluded that the Company's original proposal was reasonable.

6. Joint Intervenors - Initial Brief:

In their Initial Brief, the Joint Intervenors indicated that they no longer opposed the Company's proposal

7. ALJ Report:

ALJ found:

222. The record supports Commission approval of rate recovery for the Company's discrete capacity projects.

8. Decision Options

1153 Approve the Company's 2025-2026 Discrete Capacity budget. (Xcel, ALJ, JIN, Department)

FF. Deferred Accounting for Emission Allowances

1. Issue

Should the Commission allow Xcel to discontinue deferral of emission allowances?

2. Xcel Direct:

In Docket No. E002/M-94-13, the Commission ordered deferred accounting for revenues from the sale of certain emission allowances until the Company's next general rate case, where the effects of then-new changes to the FERC Uniform System of Accounts could be examined. The Company has continued the deferral over several rate cases, including in this case. Due to the small amount (less than \$5,000) in this account that has been accumulating since 2010 when

⁵⁵⁷ Xcel, Mensen Rebuttal, at 25

the deferral was last resolved, combined with the limited market for these allowances, the Company proposed to discontinue the deferral of emission allowances with no adjustment in this proceeding.⁵⁵⁸

3. ALJ Report

ALJ found:

303. No party provided testimony regarding the discontinuation of the deferral of emission allowances.

304. The record supports, and the Commission should approve, Xcel's proposal to discontinue deferral of emission allowances

4. Decision Options

1154 Allow Xcel to discontinue deferral of emission allowance. (Xcel, ALJ)

⁵⁵⁸ Ex. Xcel-17 at 130 (Halama Direct)

III. DECISION OPTIONS

A. Disputed Financial Issues

Sherco Unit 3 and Allen S. King Coal Plants Remaining Lives

- 1001 Require Xcel Energy to accelerate the depreciation schedule on Sherco Unit 3 and King coal plants to reflect current retirement dates. (Department)
- 1002 Allow Xcel Energy to keep depreciation for Sherco 3 and King Plants as filed. (Xcel, OAG, ALJ)
- 1003 Allow Xcel Energy to create a regulatory asset for Sherco 3 and King Plants. (Xcel)
- 1004 Reject Xcel Energy's proposed regulatory asset for Sherco 3 and King Plants. (OAG, XLI, ALJ)

Prepaid Pension And Accrued Liabilities

- 1005 Approve Xcel's request to earn a return on the prepaid pension asset, based on the Company's WACC. (Xcel)
- 1006 Deny Xcel's request to earn a return on the prepaid pension asset. (Department)
- 1007 Approve Xcel's request to earn a return on the prepaid pension asset based on the Company's long-term debt rate. (Xcel and Department alternative, ALJ)
- 1008 Defer a decision on the prepaid pension asset matter in the current proceeding, as it remains pending from Xcel's prior rate case. The final determination resulting from the ongoing remand proceedings shall apply to the treatment of the prepaid pension asset in this proceeding. (XLI)
- 1009 Defer a decision on the prepaid pension asset issue. After the Commission issues an order on the prepaid pension asset issue in Docket Nos. E-002/GR-21-630 and G-002/GR-23-413, the Executive Secretary will issue a notice of comment period in this docket regarding how the decision in the other dockets should apply to the record in this proceeding. The Commission will make a final decision on this issue a future agenda meeting. (Staff Modification of XLI)

Riverside Generating Unit

- 1010 Approve Xcel's request to include the Riverside plant in rate base for the 2025 Test Year and 2026 Plan Year. (Xcel)

Or

- 1011 Remove the Riverside unit from the 2025 Test Year and 2026 Plan Year for the period it is not expected to be used and useful: May 1, 2025 – May 30, 2026. (ALJ, Department)

Riverside O&M Expense

1012 Allow Xcel to continue to recover all O&M expenses associated with the Riverside unit during the outage period. (Xcel)

Or

1013 Remove from Xcel's proposed revenue requirement all O&M expense associated with the Riverside unit, other than property taxes and depreciation. (Department, Xcel alternative)

Or

1014 Do not authorize recovery of Riverside's disputed O&M expenses at this time, but authorize Xcel to create a regulatory asset for these expenses subject to a future Commission determination of prudence. (ALJ)

Riverside Capacity Revenues

1015 Allow Xcel to retain all MISO capacity revenues due during the outage period, and not flow them through the capacity tracker approved in the previous rate case. (Xcel alternative if Riverside is removed from rate base)

Or

1016 Require Xcel to credit Riverside's MISO capacity revenues during the outage period through the capacity tracker. (ALJ)

Further Process on Riverside

[If the Commission adopts the ALJ's recommendation to allow Xcel to create a regulatory asset for Riverside O&M expenses subject to prudence review, the Commission may consider the following procedural options.]

1017 Refer the Riverside outage matter to the Court of Administrative Hearings for a contested case hearing to evaluate: (Department)

- A. whether Xcel was prudent in its actions and O&M costs associated with the Riverside outage were reasonably and prudently incurred,
- B. the impact on energy replacements costs in fuel clause filings, and
- C. the determination and treatment of future lost planning resource auction capacity revenues via the capacity tracker due to the outage.

Or

1018 Authorize the Executive Secretary to solicit comments from interested stakeholders as to the type and scope of a potential proceeding to evaluate the prudence of costs associated with the Riverside unit and whether a contested case

and further record development on the treatment of capacity revenues related to the Riverside outage is warranted. (Staff interpretation of ALJ)

Or

1019 Authorize the Executive Secretary to issue a notice of comment period regarding the prudence of O&M costs associated with the Riverside unit. [Staff interpretation of Xcel]

1020 Pursuant to Minn. Stat. § 216B.62, subd. 8, determine that it is necessary to conduct an investigation of public utility operations, practices, or policies requiring specialized technical professional investigative services for the inquiry, and request that the Commissioner of the Department of Commerce seek authority from the Commissioner of Management and Budget to incur costs for specialized services to hire an engineering expert to review the Riverside outage report's analysis and conclusions to determine 1) whether Xcel was prudent in its actions, 2) the impact on energy replacements costs in fuel clause filings, and 3) the determination and treatment of future lost planning resource auction capacity revenues via the capacity tracker due to the outage. (Department)

Sherco 3 Restoration Costs Not Covered by Insurance

1021 Allow Xcel Energy to recover Sherco 3 restoration cost not covered by insurance (Xcel)

1022 Require Xcel Energy to remove \$2.4 million of rate base for Test Year 2025 and remove \$2.1 million of rate base for 2026 Plan Year that reflects Sherco Unit 3 restoration costs not covered by insurance. (OAG, ALJ)

Time-of-Use Rate Implementation Costs

1023 Approve Xcel's Time of Use Rate Implementation incremental costs of \$3.2 million (\$2.8 million – MN jurisdiction) for the 2025 Test Year and 2026 Plan Year. (Xcel, Department)

1024 Disallow Rate Comparison Tool costs of \$0.2 million for the 2025 Test Year, and \$1.2 million for 2026 Plan Year. (ALJ, OAG)

1025 Disallow the remaining TOU-related capital costs of \$0.5 million for the 2025 Test Year, and \$1.2 million for 2026 Plan Year. (OAG)

(If the Commission selects DO #1024 and/or #1025, it may want to consider implementing the following:)

- A. Implement deferred accounting of TOU-rate implementation costs in the current rate case, rather than petition for such treatment in a separate docket. (Xcel)

Extreme Heat/ Poor Air Quality Reconnection Program Costs

1026 Allow Xcel Energy to include additional costs of its Extreme Heat/Poor Air Quality Reconnection Program which will increase 2025-2026 revenue requirement by \$28,000 and \$2.445 million, respectively. (Xcel, ALJ)

1027 Deny Xcel Energy's request to include additional costs of its Extreme Heat/Poor Air Quality Reconnection Program which would have increased 2025-2026 revenue requirement by \$28,000 and \$2.445 million, respectively. (OAG)

Energy Supply O&M

1028 Approve Xcel's request to recover \$122.3 million in 2025 and \$140.7 million in 2026 for its MN jurisdiction Energy Supply O&M expenses. (Xcel, ALJ)

1029 Remove \$4.9 million in 2025 and \$5.7 million in 2026 for Energy Supply O&M expenses, reflecting an annual downward adjustment of 4.3%. (XLI)

Distribution O & M (Vegetation Management)

1030 Approve Xcel's request to recover \$37.4 million of vegetation management expenses in 2025, and \$40.9 million in 2026. (Xcel)

1031 Remove \$5.8 million in vegetation management expenses in 2025, and \$8.3 million in 2026, reflecting a total amount of \$31.6 million in 2025 and \$32.6 million in 2026. (Department, ALJ)

Transmission O&M

1032 Approve Xcel's request to recover \$18.9 million of Transmission O&M expenses in 2025, and \$19.4 million in 2026. (Xcel)

1033 Remove \$1.5 million in Transmission O&M expenses in 2025, and \$2.0 million in 2026. [ALJ, Department]

1034 Remove \$3.1 million in Transmission O&M expenses in 2025, and \$3.1 million in 2026. (XLI)

Customer Care O & M

1035 Approve Xcel's request to recover \$27.3 million of Customer Care O&M expenses in 2025, and \$27.1 million in 2026. (Xcel, ALJ)

1036 Remove all Customer Care O&M expenses for 2025 and 2026. (XLI)

General Allocator

1037 Approve Xcel's proposal to use Number of Employees in its General Allocator for setting rates. (Xcel)

- 1038 Order Xcel to use FTE hours for its General Allocator calculations which results in 2025- 2026 MN jurisdictional revenue requirement reductions of \$6.3 million for 2025, and \$6.5 million for 2026. (Department, ALJ)

Interchange Agreement Allocator

- 1039 Implement Xcel's proposed Interchange Agreement Allocator of 84.2171% for Minnesota for both 2025 and 2026. (Xcel)
- 1040 Implement an Interchange Agreement Allocator based on the most recently approved 2025 FERC data, which results in an allocation of 84.0693% for Minnesota, and a revenue requirement increase of \$0.3 million for 2025, and decrease of \$2.9 million for 2026. (Department)

Indirect Wildfire Costs Allocation

- 1041 Allow Xcel to use the total plant ratio method for allocating wildfire mitigation indirect costs. (ALJ, Xcel Energy)
- 1042 Approve Xcel's recovery of indirect wildfire costs based on direct wildfire mitigation costs. (Department, OAG)

Base Pay

- 1043 Approve Xcel's proposed base pay increase of \$367.29 million and \$370.33million, or a three percent (3%) increase for 2025 and 2026 test years, respectively. (Xcel, ALJ)
- 1044 Deny Xcel's proposed base pay increase of \$367.3 million and \$370.33million, or a three percent (3%) for 2025 and 2026 test years, respectively. (Department)
- 1045 Approve the Department's recommended primary adjusted base pay increase of \$348.61 million and \$358.61 million for 2025 and 2026 test years, reflecting a reduction of \$17.63 million and \$9.72 million from Xcel's proposed base pay increase in 2025 and 2026 test years. (Department)

Department's recommended alternate adjusted base pay increase should the Department's primary adjusted Base pay increase not be approved for 2025 and 2026 test years:

- 1046 Approve Department's alternate adjusted base pay increase of \$357.49 million and \$360.94 million for 2025 and 2026 test years, reflecting a reduction of \$9.80 million and \$9.40 million from Xcel's proposed base pay increase in 2025 and 2026 test years. (Department)

1047 Require Xcel to include an FTE count on a Minnesota jurisdictional basis for its next rate case to assist in the review of future base pay recovery requests. (Department)

1048 Deny the request to have Xcel include an FTE count on a Minnesota jurisdictional basis for its next rate case to assist in the review of future base pay recovery requests. (XCEL, ALJ)

Incentive Compensation

Long-term Incentive

1049 Allow recovery of Xcel's MN Jurisdictional 2025-2026 long term incentive compensation expense of \$11,481,695 million for 2025 test year, and \$12,090,503 million for 2026 plan year, respectively. (Xcel)

1050 Deny recovery of Xcel's MN Jurisdictional 2025-2026 long term incentive compensation expense of \$11,481,695 million for 2025 test year, and \$12,090,503 million for 2026 plan year, respectively. (Department, XLI, ALJ)

Annual Incentive Plan

Recovery Cap

1051 Approve Xcel's request to recover AIP expense based on a 20% aggregate cap and a 100% target level payout. (Xcel)

1052 Deny Xcel's requested AIP recovery.

1053 Authorize Xcel to recover AIP expense based on a 15% individual cap and a 100% target level payout. Reduce Xcel's proposed AIP expense by adjustment of MN Jurisdictional annual incentive plan expense of \$3,426,679 and \$3,532,571 for 2025 test year and 2026 plan year. (Department, XLI, ALJ)

AIP Administration

1054 Require Xcel to continue to administer the AIP program on an individual basis. (Department, XLI, ALJ)

1055 Require Xcel to administer the AIP program on an aggregate basis. (Xcel)

Compliance Filing

1056 Approve Xcel's request to eliminate AIP compliance filings and the requirement for AIP refund. (Xcel)

1057 Deny the request to eliminate AIP refund compliance filings.

Top Ten/Executive Compensation

1058 Allow recovery of all compensation for ten top highest paid executives from Minnesota electric jurisdiction ratepayers requested by Xcel. (Xcel)

1059 Deny recovery of total Minnesota electric jurisdiction ten top-paid executive compensation amounts of \$7,301,543 and \$7,573,008 in 2025 and 2026 respectively. (Department, OAG, ALJ)

1060 Establish a set cap salary permitted for use in a recovery calculation for Ten top-paid executive roles subject to the jurisdictional allocators to calculate the Minnesota electric jurisdictional amount eligible for recovery for these executive roles. (Department)

1061 Establish Performance Incentives Mechanisms which would allow recovery of a portion ten top highest paid executive compensation on condition of meeting ratepayer-focused metrics. (OAG)

1062 Delegate authority to the Executive Secretary to initiate a proceeding to examine Xcel's executive compensation and what, if any, mechanisms are appropriate to ensure the Company is able to earn just and reasonable rate recovery, at an appropriate level, of the necessary cost of providing electric service. (ALJ)

Limited Availability Benefits

1063 Allow Xcel to recover its proposed limited availability benefits of \$103,003 in both 2025 test year and 2026 plan year. (Xcel, ALJ)

1064 Deny Xcel's request to recover its limited availability benefits of \$103,003 in both 2025 test year and 2026 plan year. (Department)

Miscellaneous Benefit, Life, LTD Expense

1065 Allow Xcel to recover to recover Miscellaneous Benefit, Life, and LTD expenses at a level set by applying the Department's proposed methodology and inflation factor to 2024 actual expenses, as opposed to the Department's suggested average of actual expenses from 2021 through 2024. (Xcel, ALJ)

1066 Deny Xcel's request to recover its proposed Miscellaneous Benefit, Life, and LTD expenses amounts of \$3,976,149 in 2025 test year and \$3,990,839 in 2026 plan year. (Department)

1067 Accept the Department's recommended adjustment amounts of \$551,597 for 2025 and \$490,067 to Xcel's proposed Miscellaneous Benefit, Life, and LTD expenses for 2025 test year and 2026 plan year and authorize Xcel to recover the adjusted Miscellaneous Benefit, Life, and LTD expenses of \$3,424,552 in 2025 test year and \$3,500,772 in 2026 plan year. (Department, ALJ)

Non-Qualified Expenses

1068 Approve Xcel's request to recover the amount of its non-qualified expenses of \$44,662 in 2025 test year and \$48,394 for 2026 plan year. (Xcel, ALJ)

1069 Deny Xcel's request to recover the amount of its non-qualified expenses of \$44,662 in 2025 test year and \$48,394 for 2026 plan year. (Department)

Board of Directors Expense

1070 Grant Xcel's request to recover the full amount of its board of directors' expenses of \$1.2 million in 2025 test year and \$1.3 million in 2026 plan year. (Xcel)

1071 Allow Xcel to recover its proposed board of directors' expenses capped at 50% by reducing amount of recovery in 2025 test year by \$606,897 and 2026 plan year by \$661,153. (Department, ALJ)

Outside Services (FERC Account 923)

1072 Allow Xcel to recover the Outside Services O&M expenses in the amount of \$26,843,453 and \$25,881,789 for test years 2025-2026, respectively. (Xcel Energy)

1073 Allow Xcel to recover the Outside Services O&M expenses in the amount of \$22.5 million and \$24.2 million for test years 2025-2026, respectively. (Department, ALJ)

Organizational Dues (EEI, Chamber of Commerce)

1074 Allow Xcel Energy to recover dues of approximately \$677,000 annually for EEI. (Xcel, ALJ)

1075 Allow Xcel Energy to recover dues of approximately \$222,000 for Chamber of Commerce. (Xcel)

1076 Allow Xcel Energy to recover Chamber of Commerce at 50% (approximately \$111,000) of total dues. (OAG, ALJ)

1077 Reject Xcel Energy's request to recover EEI dues. (OAG)

Employee Awards and Gifts

- 1078 Approve Xcel's request to recover non-safety awards and administrative expenses of \$0.7 million in 2025, and \$0.8 million in 2026. [Xcel, ALJ]
- 1079 Remove all non-safety awards and administrative expenses in 2025 and 2026. (OAG)

Investor Relation Expenses

- 1080 Allow Xcel to recover 100% of its investor relations expenses through the MYRP. (Xcel Energy)
- 1081 Allow Xcel to recover 50% of its investor relations expenses through the MYRP. (OAG, ALJ)

Rate Case Expenses

- 1082 Approve Xcel's request to recover \$4.9 million in rate case expenses, amortized over a three-year period of 2025-2027, and to be 100 percent recovered from ratepayers. (ALJ, Xcel)
- 1083 Remove \$0.8 million in rate case expenses from both 2025 and 2026, reflecting that only 50 percent of expenses will be recovered from ratepayers. (OAG)

Liquidated Damages

- 1084 Allow Xcel Energy to exclude liquidated damages from O&M Forecast. (Xcel)
- 1085 Require Xcel Energy to include liquidated damages in O&M Forecast. (Department)

Insurance Expense

- 1086 Approve Xcel's request to recover Minnesota electrical jurisdiction insurance expenses of \$34.2 million for 2025 and \$37.2 million for 2026. (Xcel)

OR

- 1087 Remove \$5.3 million in insurance expenses from 2025, and \$5.8 million in 2026. [Department]

- 1088 Approve Xcel's proposed ELI expenses for 2025 and 2026. (ALJ)

Or

- 1089 Remove ELI expenses from 2025 and 2026 as recommended by XLI in its trade secret recommendation.⁵⁵⁹ (XLI)

⁵⁵⁹ See Ex. XLI-8 at 22 for Trade Secret recommended reduction amounts. (LaConte Surrebuttal)

- 1090 Implement a symmetrical true-up mechanism to recover actual insurance costs. (Xcel, ALJ)

Property Tax

- 1091 Allow Xcel to recover its updated forecast Minnesota Electric Jurisdictional property tax expense of \$184.2 million and \$195.4 million for the 2025 Test Year and 2026 Plan Year, subject to a true-up mechanism. (Xcel)
- 1092 Deny Xcel's request to recover its updated forecast Minnesota Electric Jurisdictional property tax expense of \$184.2 million and \$195.4 million for the 2025 Test Year and 2026 Plan Year, subject to a true-up mechanism. (Department, ALJ)
- 1093 Adopt for Xcel's recovery the Department's updated forecast Minnesota Electric Jurisdictional property tax expense of \$178.9 million and 182.5 million for the 2025 Test Year and 2026 Plan Year, subject to a true-up mechanism. (Department, ALJ)
- 1094 Allow Xcel to continue the property tax expense true-up mechanism. (Xcel, Department, ALJ)
- 1095 Deny Xcel recovery of property tax expense that exceeds five percent (5%) of the Commission approved amounts for the Multi-Year Rate Plan. (Department, ALJ)
- 1096 Allow Xcel recovery of property tax expense that exceeds five percent (5%) of the Commission approved amounts for the Multi-Year Rate Plan. (Xcel)

Distribution Capacity Investments

- 1097 Approve Xcel Energy's proposed Distribution Capacity Investments as filed, with removing the Hosting Capacity budget, for a total of \$106.6 million in 2025 and \$191 million in 2026. (Xcel, ALJ)
- 1098 Approve Xcel Energy's proposed Distribution Capacity Investments for 2025 projects as filed and cap 2026 projects pending an IDP showing on need, timing, and least-cost alternatives. (Joint Intervenors)

Distribution Targeted Undergrounding

- 1099 Approve Xcel Energy's Distribution Targeted Undergrounding as proposed for \$2.3 million in 2025 Test year and \$6.7 million in 2026 plan year, subject to Xcel's capital true-up. (Xcel, ALJ)
- 1100 Approve Xcel Energy's Distribution Targeted Undergrounding with a \$1.5 million per mile cap. (Office of Attorney General)
- 1101 Reject Xcel Energy's Distribution Targeted Undergrounding as proposed. (Joint Intervenors)

Virtual Power Plants

- 1102 Require Xcel Energy to adopt the Joint Intervenors' proposed Virtual Power Plants. (Joint Intervenors)

- 1103 Reject Joint Intervenors' proposed Virtual Power Plants. (Xcel, ALJ)
- 1104 Require Xcel to include the forecasted lifetime budget for multi-year grid modernization investments in future rate cases and a description of any future associated investments outside the scope of the current rate case that will be needed to fully implement the proposed grid modernization technology. (Staff)

Equity Considerations in Distribution Planning

- 1105 Require Xcel Energy to include Equity Consideration in Distribution Planning. (Joint Intervenors)
- 1106 Allow Xcel Energy to continue their current Distribution Planning. (Xcel)
- 1107 Require Xcel to develop criteria for its project prioritization process with respect to equity considerations in distribution planning, similar to the processes adopted by DTE Electric and Consumers Energy. The Company shall develop an initial framework, in consultation with stakeholders, and file it with its 2027 IDP due November 1, 2027. (Staff)

Equity NOx Tracker

- 1108 Approve Xcel Energy's proposed NOx Tracker and require Xcel to provide support for related expenses in annual compliance filings. (Xcel, Department)
- 1109 Reject Xcel Energy's proposed NOx Tracker.

Classification of AMI Meters and Equipment

- 1110 Require Xcel Energy to submit a study comparing costs of AMI meters with costs of traditional meters both in use and reading. (Department, ALJ)
- 1111 Approve cost allocation of AMI meters classified as one-third customer-related, one-third energy-related and one-third demand-related. (Office of Attorney General, ALJ)
- 1112 Approve cost allocation of AMI meters as 100% customer-related. (Xcel, XLI)

B. Resolved Financial Issues

Community Solar Gardens

- 1113 Approve Xcel Energy's updated revenue forecast to align with latest approved CSG fee structure, resulting in an increase in other revenues in the 2025 test year of \$742,000 and 2026 plan year of \$1,415,000, and a decrease to revenue requirements. (Xcel, Department)
- 1114 Reject Xcel Energy's updated revenue forecast to align with latest approved CSG

fee structure, resulting in an increase in other revenues in the 2025 test year and 2026 plan year, and a decrease to revenue requirements.

Customer Advances

- 1115 Approve Xcel's customer advance expenses of (\$11.6 million) for both 2025 and 2026. (ALJ, Xcel, Department]

Nuclear Decommissioning and Accrual Costs

- 1116 Allow Xcel to adjust its nuclear decommissioning accrual amount of zero and the end-of-life (EOL) nuclear fuel accrual amounts of approximately \$155,000 and \$160,000 in 2025 and 2026, respectively. (ALJ, Xcel, Department)
- 1117 Allow Xcel to discontinue the May 1 separate annual compliance report on nuclear refueling outage expenditures requirement. (Xcel)
- 1118 Deny Xcel's request to discontinue the May 1 separate annual compliance report on nuclear refueling outage expenditures requirement

Transmission, Distribution, and General (TD&G) Depreciation

- 1119 Approve Xcel's rebuttal adjustments related to FERC accounts 370 and 390 for TD&G depreciation expense. (Xcel, Department, ALJ)

Distributed Intelligence My Energy Connection (MEC) 3.0

- 1120 Approve Xcel's correction adjustments to MEC 3.0 project of (\$4,380,000) and (\$489,000) for 2025 and 2026 to accurately allocate costs to all operating Companies. (Xcel, Department, ALJ)

Distributed Intelligence

- 1121 Approve Xcel's adjustment from the removal of one non NSPM distributed intelligence project from MYRP forecast in the amount of \$0.2 million in 2025 and 2026. (Xcel, Department, ALJ)

Employee Expenses

- 1122 Approve Xcel's proposed adjustment to Employee expenses of \$35,000 for 2025 test year. (Xcel, Department, ALJ).

Electric Vehicle Program

- 1123 Approve Xcel's adjusted IT capital costs related to the Company's Electric Vehicle Programs in the MYRP (2025-2026) budget. (Xcel, ALJ, Department)

Hosting Capacity

- 1124 Approve Xcel's hosting capacity upgrade expense of \$0 for 2026. (ALJ, Xcel, Joint Intervenors, Department)

Luverne Battery Reallocation

- 1125 Approve Xcel's Luverne Battery Reallocation expense of \$1.3 million for 2026. (ALJ, Xcel, Department)

Nuclear Production Tax Credits

- 1126 Approve Xcel's adjustment of the cost of service to incorporate 2026 forecasted nuclear Production Tax Credits (PTC), including the PTC refund in the Fuel Clause Adjustment Rider. (Xcel Energy, Department, ALJ)

Solar Production Tax Credits – Allocation

- 1127 Approve Xcel's proposed adjustment for Solar Production Tax Credits in the amount of \$84,000 in 2025 and \$164,000 in 2026. (Xcel Energy, DEPARTMENT, ALJ)

Federal Production Tax Credits (PTCs)

- 1128 Approve Xcel's adjusted baseline PTC amount in base rates for each year of the MYRP, 2025 and 2026, subject to true-up in the RES Rider. (Xcel Energy, Department, ALJ)

Remaining Lives and Net Salvage Rates – Production

- 1129 Disallow the extension request for the depreciation lives of Hennepin Island and Upper Dam Hydro facilities and instead use a remaining life of 9.2 years, resulting in an increase in depreciation expense of approximately \$1.6 million in 2025 and \$2.1 million in 2026. (Xcel Energy, Department, ALJ)

Remaining Lives – Nuclear

- 1130 Approve Xcel's adjustment to depreciation lives and expense to match the depreciable lives of the Monticello and Prairie Island nuclear plants approved in the 2024-2040 IRP (Docket No. E002/RP-24-67). (Xcel, ALJ, Department)

TCR Rider Removal FERC Reclassification

- 1131 Allow Xcel Energy to adjust correctly for a misclassification in FERC accounts related to AMI meters. (Xcel, Department)
- 1132 Disallow Xcel Energy's proposed adjustment to correct for a misclassification in FERC accounts related to AMI meters

TCR Rider Removal Update

- 1133 Allow Xcel Energy to adjust the TCR Rider to fully remove all AMI capital costs recovered in the TCR Rider revenue and to remove the equivalent rider revenues of (\$125,000) for 2025 and (\$169,000) for 2026 included in the MYRP cost of service. (Xcel, Department)
- 1134 Reject Xcel Energy's adjustment of the TCR Rider to fully remove all AMI capital costs recovered in the TCR Rider revenue and to remove the equivalent rider revenues included in the MYRP cost of service.

Service Quality

- 1135 Approve Xcel's adjustment to incorporate costs in the 2025-2026 MYRP to comply with Commission's Order in Department Docket No. E002/M-24-27 for Xcel

to hire a third-party evaluator to evaluate Xcel's practices and policies related to capital investment planning, outage restoration practices, and shutoff practices to better understand the causes of discrepancies in shutoff rates and service reliability, of \$50,000 in 2025 test year and \$209,000 for plan year. (Xcel, Department, ALJ)

Sherco Inventory Write Off

1136 Authorize Xcel Energy to amortize the write-off amount of \$8.1 million over three years and revised the revenue requirement to reflect the three-year amortization beginning in 2025. (Xcel, Department)

1137 Reject Xcel Energy's request to amortize the write-off amount of \$8.1 million over three years and revised the revenue requirement to reflect the three-year amortization beginning in 2025

Wildfire Mitigation Program

1138 Approve Xcel's proposed adjusted \$48.06 million of larger-scale wildfire-related capital additions for the 2025 test year and 2026 plan years combined, with approximately \$9.19 million in annual wildfire-related O&M expenses of wildfire-related operations. (Xcel, Department, JIN, ALJ)

1139 Require Xcel to develop a Wildfire Mitigation Plan, the details of which shall be decided as part of Xcel Energy's 2025 Integrated Distribution Plan. Require the Company to use its Wildfire Mitigation Plan to justify future wildfire investment proposals. (Staff)

Wildfire Mitigation Pole Loading Clearance (PLC) program

1140 Approve Xcel's adjusted budgets for capital and O&M costs related to the Pole Loading Clearance (PLC) program. (Xcel Energy, ALJ, Department)

Research and Experimentation Federal and State Tax Credits

1141 Approve Xcel's adjustment for the Research and Experimentation (R&E) Federal and State Tax Credits in the amount of approximately \$396,000 for the federal R&E credit and \$98,000 for the state R&E credit. (Xcel, Department, ALJ)

North Dakota Investment Tax Credits

1142 Allow Xcel to include its initial proposed North Dakota investment tax credits (ITC) in 2025 test year and 2026 plan year. (Xcel, Department, ALJ)

Distribution Communications Infrastructure

1143 Approve Xcel's proposed budget for its Distributed Communications Infrastructure (Fiber Build-out project) in the amount of \$9.6 million in 2025 test year and \$10.6 million for 2026 plan year. (Xcel, JIN, ALJ)

Bad Debt Expense Adjustment

1144 Approve Xcel Energy's bad debt expense ratios and bad debt expense levels of \$19.2 million for 2025 Test Year and \$21.4 million for 2026 Plan Year.

1145 Reject Xcel Energy's bad debt expense ratios and bad debt expense levels for 2025 Test Year and 2026 Plan Year

Sales True-Up

1146 Approve Xcel's proposal to continue its Sales True-Up during this MYRP. (Xcel, Department, ALJ)
1.

Capital True-Up

1147 Approve Xcel's proposed capital true-up mechanism. (Xcel Energy, Department, ALJ)

Property Tax True-Up

1148 Approve Xcel's proposal to continue its Property Tax True-Up mechanism during this MYRP. (Xcel, Department, ALJ)
2.

Coal Combustion Residuals (CCR) Tracker

1149 Approve Xcel's proposal to establish a CCR Tracker to recover Legacy CCR Rule compliance costs, with cost estimates of \$6 million for 2025-2026. (ALJ, Xcel, Department)

1150 Approve Xcel's proposal to include the CCR tracker in its July 1 Annual Report of Rate Case Approved True-Up Mechanism compliance filing. (Xcel, Department)
3.

Bad Debt Expense Tracker

1151 Approve Xcel Energy's Bad Debt Tracker with yearly compliance filing. (Xcel, CUB, ECC)

1152 Reject Xcel Energy's Bad Debt Tracker.

Discrete Capacity Project Investments

1153 Approve the Company's 2025-2026 Discrete Capacity budget. (Xcel, ALJ, Joint Intervenors, Department)

Deferred Accounting for Emission Allowances

1154 Allow Xcel to discontinue deferral of emission allowance. (Xcel, ALJ)

IV. APPENDIX – REFERENCES TO THE RECORD

A. Disputed Financial Issues

Sherco Unit 3 and Allen S. King Coal Plant

ALJ Report ¶¶ 324-340
Xcel –19 at 38, 49-54 (Halama Rebuttal)
Xcel –17 at 76 (Halama Direct)
Xcel –16 at 24-26 (Liberkowski Rebuttal)
Xcel –86 at 3-4 (Moeller Rebuttal)
Xcel – 69 at 41-42 (Johnson Direct)
OAG –6, 1-11 (Lee Rebuttal)
OAG –7 at 25-28 (Lee Surrebuttal)
XLI –5 at 3-9 (LaConte Rebuttal)
XLI –8 at 22-24 (LaConte Surrebuttal)
DOC –23 at 14-16 (Jones Direct)
DOC –24 at 13-21 (Jones Surrebuttal)
Exceptions Xcel at 44-47
Exceptions DOC at 7-11

Prepaid Pension And Accrued Liabilities

ALJ Report ¶¶ 341-366
Ex. Xcel-17 at 79 (Halama Direct)
Ex. Xcel-57 at 32, 54-84 (Schrubbe Direct), and Schedule 13-14
Ex. Xcel-19 at 37-38 (Halama Rebuttal), and Schedule 4
Ex. Xcel-58 entirety (Schrubbe Rebuttal)
Ex. DOC-11 entirety (Hunt Surrebuttal)
Xcel Initial Brief at 135-143
DOC Initial Brief at 61-65
Xcel Reply Brief at 89-93
DOC Reply Brief at 8-10
PUC Information Requests No. 1-6
Xcel Exceptions to the ALJ Report at 31-35
DOC Exceptions to the ALJ Report at 11-20
XLI Exceptions to the ALJ Report at 20, and Attachment A

Riverside Generating Unit

ALJ Report ¶¶ 367-390
Ex. Xcel-16 at 22-24 (Liberkowski Rebuttal)
Ex. Xcel-82 at 13-14 (Detmer Rebuttal)
Ex. DOC-1 at 46-49 (Johnson Direct)
Ex. DOC-2 at 25-30 (Johnson Surrebuttal)

Xcel Initial Brief at 164-169
 DOC Initial Brief at 59-60
 Xcel Reply Brief at 111-113
 DOC Reply Brief at 20-21
 Xcel Exceptions to the ALJ Report 41-44

Sherco 3 Restoration Costs Not Covered by Insurance

ALJ Report ¶¶ 391-402
 Ex. Xcel –16 at 21-22 (Liberkowski Rebuttal)
 Ex. Xcel –19 at 34-35 (Halama Rebuttal)
 Ex. Xcel –86 at 3-4 (Moeller Rebuttal)
 Ex. OAG –7 at 16-19 (Lee Surrebuttal)
 Ex. OAG –5 at 22-25 (Lee Direct)

Time-of-Use (TOU) Rate Implementation Costs

ALJ Report ¶¶ 403-424
 Ex. Xcel-18 at 8, n.2 (Halama Supplemental Direct)
 Ex. Xcel-19 at 27-29 and Schedule 3A, 3B at 4 (Halama Rebuttal)
 Ex. Xcel-12 at 28 (Errata to Halama Rebuttal)
 Ex. OAG-4 at 27-40 (Hinderlie Surrebuttal)
 Xcel Initial Brief at 174-183
 OAG Initial Brief at 17-22
 OAG Reply Brief at 9-13
 Xcel Exceptions to the ALJ Report at 62-65

Extreme Heat/ Poor Air Quality Reconnection Program Costs

ALJ Report ¶¶ 425-439
 Ex. OAG-3 at 40-50 (Hinderlie Surrebuttal)
 Ex. OAG-3, Schedule 5 (Hinderlie Surrebuttal) (Xcel Response to OAG IR 1061).
 Ex. Xcel-19 at 19-20 and Schedule 3A & 3B at 3-4, Column 24 (Halama Rebuttal).
 Ex. Xcel-71 at 17-18, 33-34 (Martin Rebuttal)

In the Matter of Northern States Power Co. d/b/a Xcel Energy's 2024 Annual Safety, Reliability and Service Quality Report, MPUC Docket No. E-002/M-25-27, ORDER (July 25, 2025) (eDocket No. 20257-221406-01).

In the Matter of Northern States Power Co. d/b/a Xcel Energy's 2024 Annual Safety, Reliability and Service Quality Report, MPUC Docket No. E002/M-25-27, OAG Letter (July 16, 2025) (supporting decision options 9 and 10, to require implementation effective May 1, 2026); In the Matter of Northern States Power Co. d/b/a Xcel Energy's 2024 Annual Safety, Reliability and Service Quality Report, MPUC Docket No. E002/M-25-27, OAG Comments at 2 (May 9, 2025) (recommending plan implementation on an expedited timeline).

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OAG, Exceptions to ALJ Report, at 4-13
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Energy Supply O&M

ALJ Report ¶¶ 440-455
Ex. Xcel-45 at 54-92 (Capra Direct).
Ex. Xcel-46 at 2-9 (Capra Rebuttal).
Ex. XLI-2 at 50-51 (LaConte Direct).
Ex. XLI-8 at 13-15 (LaConte Surrebuttal).
Xcel Initial Brief at 63-67
XLI Initial Brief at 24-26
Xcel Reply Brief at 40-43
XLI Reply Brief at 13-15
XLI Exceptions to the ALJ Report at 15-16 and Attachment A

Distribution O&M (Vegetation Management)

ALJ Report ¶¶ 456-471
Ex. Xcel-17 at 18 (Halama Direct).
Ex. Xcel-36 at 138-147, 150-155, 159, 147-150 (Mensen Direct).
Ex. Xcel-35 at 43-49 (Mensen Rebuttal).
Ex. DOC-7 at 17-20 (Uphus Direct).
Ex. DOC-8 at 9-16 (Uphus Surrebuttal).
SRA Initial Brief at 9-10
Xcel Initial Brief at 73-77
Xcel Reply Brief at 47-50
DOC Reply Brief at 10-11
Xcel Exceptions to the ALJ Report at 36-37

Transmission O&M

ALJ Report ¶¶ 472-489
Ex. Xcel-42 at 1-12, 78-89 (Berklund Direct)
Ex. Xcel-43 entirety (Berklund Rebuttal)
Ex. Xcel-17 at 17 (Halama Direct)
Ex. XLI-2 at 52-53 (LaConte Direct)
Ex. XLI-8 at 13-15 (LaConte Surrebuttal)
Ex. DOC-5 at 5-9 (Golden Direct)
Ex. DOC-6 at 8-13 (Golden Surrebuttal)
Xcel Initial Brief at 67-73

DOC Initial Brief at 74-76
 XLI Initial Brief at 24-26
 Xcel Reply Brief at 43-47
 XLI Reply Brief at 14-15
 Xcel Exceptions to the ALJ Report at 37-39
 XLI Exceptions to the ALJ Report at 16-17 and Attachment A

Customer Care O&M

ALJ Report ¶¶ 490-501
 Ex. Xcel-38 at 4-22 (Lindgren Direct)
 Ex. Xcel-81 at 6-8 (Howard Rebuttal)
 Ex. XLI-2 at 1, 59-64 (LaConte Direct)
 Ex. XLI-8 at 19-20 (LaConte Surrebuttal)
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 Xcel Brief at 77-81
 XLI Brief at 31-33
 Xcel Reply Brief at 50-51
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 Xcel Exceptions to the ALJ Report at 40-41
 XLI Exceptions to the ALJ Report at 17-18 and Attachment A

General Allocator

ALJ Report ¶¶ 502-514
 Ex. Xcel-49, entirety (Doyle Direct)
 Ex. Xcel-50, entirety (Doyle Rebuttal)
 Ex. Xcel-7, Vol. 4 Workpapers
 Ex. DOC-1 at 33-39 (Johnson Direct)
 Ex. DOC-2 at 7-11 (Johnson Surrebuttal)
 Xcel Initial Brief at 143-151
 DOC Initial Brief at 65-66
 Xcel Reply Brief at 94-96
 DOC Reply Brief at 18-20
 Xcel Exceptions to the ALJ Report 47-50

Interchange Agreement Allocator

ALJ Report ¶¶ 502, 515-528
 Ex. Xcel-17 at 60-62 (Halama Direct)
 Ex. Xcel-18 at 6-7 (Halama Supplemental Direct)
 Ex. Xcel-19 at 60-61 (Halama Rebuttal)
 Ex. DOC-1 at 29-33 (Johnson Direct)
 Ex. DOC-2 at 5-7 (Johnson Surrebuttal)
 Xcel Initial Brief at 151-159

DOC Initial Brief at 79-80
 Xcel Reply Brief at 96-99
 DOC Reply Brief at 18-20
 Xcel Exceptions to the ALJ Report at 50-56

Indirect Wildfire Cost Allocator

ALJ Report ¶¶ 529-545
 Ex. Xcel-49 at 5-6 (Doyle Direct)
 Ex. Xcel-50 at 15-21 (Doyle Rebuttal).
 Ex. DOC-1 at 42-44 (Johnson Direct).
 Ex. DOC-2 at 22 (Johnson Surrebuttal).
 Ex. DOC-9 at 14 (Borden Direct).
 Xcel Reply Brief at 105-06 (citing Ex. DOC-1, Schedule 8 (Johnson Direct))
 Ex. OAG-5 at 25-29 (Lee Direct).
 Ex. OAG-7 at 19-23 (Lee Surrebuttal).
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In the Matter of the Application of Northern States Power Company for Authority to Increase Its Rates for Electric Service the State of in Minnesota, MPUC Docket No. E-002/GR-92-1185, FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER (Sep. 29, 1993); In the Matter of the Application of Northern States Power Company's Gas Utility for Authority to Change Its Schedule Gas Rates for Retail Customers Within the State of Minnesota, MPUC Docket No, E-002/GR-92-1186, FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER (Sep. 1, 1993).

In the Matter of an Investigation into the Competitive Impact of Appliance Sales and Service Practices of Minnesota Gas and Electric Utilities, Docket No. G,E-999/CI-90-1008, ORDER FINDING COMPLIANCE, EXEMPTING NORTHWESTERN WISCONSIN, REQUIRING PREPARATION, AND CLOSING DOCKET (Mar. 1, 1995).

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 Department, Exceptions to ALJ Report, at 21-22
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Base pay

ALJ Report ¶¶ 546-565
 Ex. Xcel-64 at 10-13 (Ly Direct).
 Ex. DOC-3 at 8-14 (Kehrwald Direct).
 Ex. Xcel-28 at 25-32 (Robinson Rebuttal).

Ex. Xcel-65 at 5-8 (Ly Rebuttal).
 Ex. Xcel-19 at 62-63 (Table 3) (Halama Rebuttal).
 Ex. Xcel, Exception to ALJ, pp. 13-15.
 Ex. DOC-4 at 6-26 (Kehrwald Surrebuttal).
 DOC Exceptions to ALJ Report, at 22-27.

Incentive Compensation

Long-term Incentive

ALJ Report ¶¶ 567-578
 Ex. Xcel-64 at 13-28 (Ly Direct).
 Ex. Xcel-66, Entirety (Mustich Direct).
 Ex. DOC-3 at 29-72 (Kehrwald Direct).
 Ex. DOC-4 at 46-62 (Kehrwald)
 Ex. XLI-8 at 16-18 (LaConte Surrebuttal).
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 Ex. Xcel-66 at 8-24 (Ly Rebuttal).
 Ex. Xcel-67 at 6-11 (Mustich Rebuttal).
 Xcel Exceptions to ALJ Report at 23-25.

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ALJ Report ¶¶ 579-594
 Ex. Xcel-64 at 13-28 (Ly Direct).
 Ex. Xcel-17 at 78-79 (Halama Direct).
 Ex. Xcel-66 entirety (Mustich).
 Ex. XLI-2 at 43-49 (LaConte Direct).
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 Ex. Xcel-19 at 62-63 (Table 3) (Halama Rebuttal).
 Xcel Exceptions to ALJ Report, at 26-29.

Top Ten/Executive Compensation

ALJ Report ¶¶ 595-622
 Ex. Xcel-64 at 32-36 (Ly Direct).
 Ex. Xcel-66, entirety (Mustich Direct).
 Ex. Xcel-26 at 100-101 (Robinson Direct).
 Ex. OAG-2, entirety (Hinderlie Direct).
 Ex. OAG-4 at 1-27 (Hinderlie Surrebuttal).
 Ex. DOC-4 at 46-62 (Kehrwald Surrebuttal).
 Ex. DOC-3 at 29-42 (Kehrwald Direct).
 Ex. Xcel-65 at 27-36 (Ly Rebuttal).
 Ex. Xcel-67, entirety (Mustich Rebuttal).

Ex. Xcel-19 at 62-63 (Table 3) (Halama Rebuttal).
Xcel Exceptions to ALJ Report, at 15-22.

Limited Availability Benefits

ALJ Report ¶¶ 624-630
Ex. Xcel-57, entirety (Schrubbe Direct)
Ex. DOC-3, entirety (Kehrwald Direct)
Ex. DOC-3 at 48-50 (Kehrwald Direct)
Ex. Xcel-19 at 62-63 (Table 3) (Halama Rebuttal)
Ex. Xcel-65 at 36-38 (Ly Rebuttal)
Ex. DOC-4 at 62-64 (Kehrwald Surrebuttal)

Miscellaneous Benefit, Life, LTD Expense

ALJ Report ¶¶ 631-639
Ex. Xcel-57 at 89-90 (Schrubbe Direct).
Ex. Xcel-62 at 36-41 (Ly Direct).
Ex. DOC-3 at 42-44 (Kehrwald Direct).
Ex. DOC-4 at 2-4 (Kehrwald Surrebuttal).
Xcel Exceptions to ALJ Report, at 29-31

Non-Qualified Expenses

ALJ Report ¶¶ 640-651
Ex. DOC-3 at 44-48 (Kehrwald Direct).
Ex. DOC-4 at 4-6 (Kehrwald Surrebuttal).

Board of Directors Expense

ALJ Report ¶¶ 652-662
Ex. DOC-3 at 50-55 (Kehrwald Direct).
Ex. Xcel-65 at 38-42 (Ly Rebuttal).
Ex. Xcel-19 at 62-63 (Table 3) (Halama Rebuttal)
Ex. DOC-4 at 65-68 (Kehrwald Surrebuttal).
Xcel, Exceptions to ALJ Report, at 57-59.

Outside Services (FERC Account 923)

ALJ Report ¶¶ 663-679
Uniform System of Accounts, 18 C.F.R. part 101, Account 923
Minn. R. 7825.0300, subp. 2 (referring to the FPC (Federal Power Commission), FERC's predecessor)
Ex. Xcel-28 at 19-23 (Robinson Rebuttal).
Ex. DOC-5 at 14-17 (Golden Direct).

Organizational Dues (EEI, Chamber of Commerce)

ALJ Report ¶¶ 680-700

Ex. Xcel-17 at 77 (Halama Direct)

Ex. Xcel-26 at 105-106, 107-109 (Robinson Direct)

Ex. Xcel-28 at 2-13 (Robinson Rebuttal)

Ex. Xcel-19 at 57-58, 62-63 (Table 3) (Halama Rebuttal)

Ex. OAG-5 at 2-9 (Lee Direct)

Ex. OAG-7 at 2-8 (Lee Surrebuttal)

Employee Awards and Gifts

ALJ Report ¶¶ 701-714

Ex. Xcel-26 at 104-105 (Robinson Direct)

Ex. Xcel-28 at 13-17 (Robinson Rebuttal)

Ex. Xcel-64 at 28-29 (Ly Direct)

Ex. Xcel-65 at 24-27 (Ly Rebuttal)

Ex. Xcel-19 at 58-60, 62-63 (Table 3) (Halama Rebuttal)

Ex. OAG-5 at 10-12 (Lee Direct)

Ex. OAG-7 at 8-10 (Lee Surrebuttal)

Xcel Initial Brief at 206-211

OAG Initial Brief at 41-43

OAG Reply Brief at 27-29

OAG Exceptions to the ALJ Report at 20-23

Investor Relation Expenses

ALJ Report ¶¶ 715-720

Ex. Xcel-20 at 37-38 (Wehner Direct);

Ex. OAG-5 at 14 and Schedule 5 at 1 (Lee Direct).

Ex. OAG-7 at 12 (Lee Surrebuttal).

In the Matter of an Application by CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Minnesota Gas for Authority to Increase natural Gas Rates in Minnesota, MPUC Docket No. G-008/GR-13-316, FINDINGS OF FACT, CONCLUSIONS, ORDER at 22 (Jun. 9, 2014) [hereinafter CenterPoint 2013 Rate Case Order].

Rate Case Expenses

ALJ Report ¶¶ 721-739

Ex. Xcel-17 at 84-85 (Halama Direct)

Ex. Xcel-19 at 42-49 (Halama Rebuttal)

Ex. OAG-5 at 15-22 (Lee Direct)

Ex. OAG-7 at 13-16 (Lee Surrebuttal)

Xcel Initial Brief at 169-174

OAG Initial Brief at 45-48

Xcel Reply Brief at 113-118

OAG Reply Brief at 30-32

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OAG Exceptions to the ALJ Report at 23-27

Liquidated Damages

- ALJ Report ¶¶ 740-751
- Ex. Xcel – 19 at 54-55, 62-63 (Table 3) (Halama Rebuttal)
- Ex. Xcel – 46 at 9-13 (Capra Rebuttal)
- EX. Xcel–45 at 60-62 (Capra Direct)
- EX. DOC–1 at 40-42 (Johnson Direct)
- Ex. DOC–2 at 13-18 (Johnson Surrebuttal)

Insurance Expenses

- ALJ Report ¶¶ 752-767
- Ex. Xcel-55 at 17-23, 27-31 (Miller Direct)
- Ex. Xcel-56, entirety (Miller Rebuttal)
- Ex. Xcel-19 at 56, 62-63 (Table 3) (Halama Rebuttal)
- Ex. XLI-2 at 54-58 (LaConte Direct)
- Ex. XLI-8 at 20-22 (LaConte Surrebuttal)
- Ex. DOC-23 at 20-27 (Jones Direct)
- Ex. DOC-24 at 9, 22-27 (Jones Surrebuttal)
- Xcel Initial Brief at 125-135
- DOC Initial Brief at 38-43
- XLI Initial Brief at 26-27
- XLI Reply Brief at 15-17
- Xcel Reply Brief at 80-89
- DOC Exceptions to the ALJ Report at 30-36
- XLI Exceptions to the ALJ Report at 19-20 and Attachment A

Property Tax

- ALJ Report ¶¶ 768-783
- Ex. Xcel-51, entirety (Kowalowski Direct).
- Ex. DOC-23 at 8-13 (Jones Direct).
- Ex. Xcel-52, entirety (Kowalowski Rebuttal).
- Ex. Xcel-19 at 62-63 (Table 3) (Halama Rebuttal).
- Ex. DOC-24 at 10-13 (Jones Surrebuttal)

Distribution Capacity Investments

- ALJ Report ¶¶ 784-790
- Ex. Xcel–36 at 88-99 (Mensen Direct)
- Ex. Xcel–35 at 19-25 (Mensen Rebuttal)
- Ex. Xcel–19 at 62-63 (Table 3) (Halama Rebuttal)
- Ex. JIN–1 at 23-25 (Kenworthy Direct)
- Ex. JIN–4 at 7-18 (Kenworthy Surrebuttal)

Distribution Targeted Undergrounding

- ALJ Report ¶¶ 791-805

Ex. Xcel-35 at 2-16 (Mensen Rebuttal)
 Ex. Xcel-36 at 38-41 (Mensen Direct)
 Ex. Xcel-37 at 1-4 (Mensen Supplemental Direct)
 Ex. OAG-5 at 29-35 (Lee Direct)
 Ex. OAG-7 at 23-25 (Lee Surrebuttal)
 Ex. JIN-1 at 7-8 (Kenworthy Direct)
 Ex. OAG Exceptions at 27-32
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Virtual Power Plants

ALJ Report ¶¶ 806-816
 Ex. Xcel-35 at 34-41 (Mensen Rebuttal)
 Ex. JIN-1 at 35-45, 47 (Kenworthy Direct)
 Ex. JIN-4 at 12-17 (Kenworthy Surrebuttal)
 JIN Exceptions at 4-8

Equity Considerations in Distribution Planning

ALJ Report ¶¶ 818-830
 Ex. Xcel-70, entirety (Martin Direct)
 Ex. Xcel-71 at 64-68, 70-71 (Martin Rebuttal)
 Ex. Xcel-35 at 16-19 (Mensen Rebuttal)
 Ex. JIN-1 at 3-15 (Kenworthy Direct)
 Ex. JIN-4 at 2-12 (Kenworthy Surrebuttal)
 Ex. JIN Exception at 7-11

Classification of AMI Meters and Equipment

ALJ Report ¶¶ 1057-1070
 Ex. Xcel-74 at 26-30 (Barthol Rebuttal)
 Ex. OAG-8 at 27-30 (Scharber Direct)
 Ex. OAG-11 at 22-30 (Scharber Surrebuttal)
 Ex. XLI-6 at 16-19 (Ly Rebuttal)
 Ex. XLI-9 at 17-18 (Ly Surrebuttal)
 Ex. DOC-18 at 4-6 (Zajicek Surrebuttal)
 Ex. Xcel Exceptions at 65-67
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NOx Tracker

ALJ Report ¶¶ 831-845
 Ex. Xcel-17 at 115-116 (Halama Direct)
 Ex. Xcel-19 at 66-67 (Halama Rebuttal)
 Ex. Xcel-59 at 2-14 (West Direct)
 Ex. Xcel-60 at 2 (West Rebuttal)
 Ex. DOC-5 at 18-21 (Golden Direct)
 Ex. DOC-6 at 5-6 (Golden Surrebuttal)

B. Resolved Financial Issues

Community Solar Gardens

ALJ Report ¶¶ 96-98

Ex. Xcel – 19 at 4-5 and Schedules 3A-3B at 2 (Halama Rebuttal)

Ex. DOC-2 at 31-32 and Schedule 1 (Johnson Surrebuttal)

Customer Advances

ALJ Report ¶¶ 99-101

Ex. Xcel-17 at 38 and Schedule 10A (Halama Direct)

Ex. Xcel-19 at 5 and Schedule 3A (Halama Rebuttal)

Ex. DOC-2 at 31 (Johnson Surrebuttal)

Nuclear Decommissioning and Accrual Costs

ALJ Report ¶¶ 102-109

Ex. DOC-5 at 2-5 (Golden Direct)

Ex. DOC-6 at 4 (Golden Surrebuttal)

Ex. Xcel-68 at 51-53 (Johnson Direct)

Ex. Xcel-19 at 5-11 and Schedules 3A-3B (Halama Rebuttal)

Ex. Xcel-86 at 5-7 (Moeller Rebuttal)

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Transmission, Distribution, and General (TD&G) Depreciation

ALJ Report ¶¶ 110-112

Ex. Xcel-19 at 7-8 and Schedules 3A-3B at 2 (Halama Rebuttal)

Ex. Xcel-86 at 5-7 (Moeller Rebuttal)

Ex. DOC-2 at 31-32 and Schedule 1 (Johnson Surrebuttal)

Distributed Intelligence My Energy Connection (MEC) 3.0

ALJ Report ¶¶ 113-115

Ex. Xcel-19 at 7-8 and Schedules 3A-3B at 2 (Halama Rebuttal)

Ex. DOC-2 at 32-33 and Schedule 1 (Johnson Surrebuttal)

Distributed Intelligence

ALJ Report ¶¶ 116-118

Ex. Xcel-17 at 96 (Halama Direct).

Ex. Xcel-19 at 8 and Schedules 3A-3B at 2 (Halama Rebuttal).

Ex. DOC-2 at 31-32 and Schedule 1 (Johnson Surrebuttal).

Employee Expenses

ALJ Report ¶¶ 119-120

Xcel-27 at 1-3 (Robinson Suppl. Direct)

Xcel-19 at 9 and Schedules 3A-3B at 2 (Halama Rebuttal)

Xcel-18 at 6 (Halama Suppl. Direct)

Electric Vehicle Program

ALJ Report ¶¶ 121-123

Ex. Xcel-19 at 11-12 and Schedules 3A-3B (Halama Rebuttal).

Ex. DOC-2 at 31-32 and Schedule 1 (Johnson Surrebuttal)

Hosting Capacity

ALJ Report ¶¶ 130-134

Ex. Xcel-17 at 108-109 (Halama Direct)

Ex. Xcel-19 at 13 and Schedules 3A-3B at 2 (Halama Rebuttal)

Ex. Xcel-34 at 96-97 and Schedule 2 at 3 (Mensen Direct)

Ex. Xcel-35 at 25-26 (Mensen Rebuttal)

Ex. JIN-1 at 25 (Kenworthy Direct)

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Luverne Battery Reallocation

ALJ Report ¶¶ 135-138

Ex. Xcel-68 at 44-45 and Schedule 12 (Johnson Direct)

Ex. Xcel-86 at 8-9 (Moeller Rebuttal)

Ex. Xcel-19 at 15-16 and Schedule 3A and 3B, at 4 (Halama Rebuttal)

Ex. DOC-2 at 31-32 and Schedule 1 (Johnson Surrebuttal)

Nuclear Production Tax Credits

ALJ Report ¶¶ 139-142

Ex. Xcel-17 at 57 (Halama Direct)

Ex. Xcel-19 at 16-17 and Schedules 3A-3B (Halama Rebuttal)

Ex. DOC-2 at 31-32 and Schedule 1 (Johnson Surrebuttal)

Solar Production Tax Credits

ALJ Report ¶¶ 143-146

Ex. Xcel-17 at 96-97 (Halama Direct)

Ex. Xcel-19 at 17 and Schedule 3A-3B (Halama Rebuttal)

Ex. DOC-2 at 31-33 and Schedule 1 (Johnson Surrebuttal)

Federal Production Tax Credits (PTC)

ALJ Report ¶¶ 147-150

Xcel Initial, Volume 4, Section III Rate Base (Plant), Subpart P8-1, Production Tax Credits

Ex. Xcel-17 at 103-104 (Halama Direct)

Ex. Xcel-19 at 18-19 and Schedule 3A-3B (Halama Rebuttal)

Ex. DOC-7 at 5-8 (Uphus Direct)

Remaining Lives and Net Salvage Rates – Production

ALJ Report ¶¶ 151-155 at 28-29

Ex. Xcel-86 at 7-8 (Moeller Rebuttal)

Ex. Xcel-19 at 20-21 and Schedules 3A and 3B (Halama Rebuttal)

Ex. Xcel 69 at 33 (Johnson Direct)

Remaining Lives – Nuclear

ALJ Report ¶¶ 156-158
 Ex. DOC-23 at 13-16 (Jones Direct)
 Ex. DOC-24 at 5-6 (Jones Surrebuttal)
 Ex. Xcel-19 at 22 and Schedules 3A and 3B (Halama Rebuttal)
 Ex. Xcel-86 at 3-4 (Moeller Rebuttal).

TCR Rider Removal FERC Reclassification

ALJ Report ¶¶ 159-161
 Ex. Xcel – 19 at 23 and Schedules 3A-3B at 4 (Halama Rebuttal)
 Ex. DOC-2 at 31-32 and Schedule 1 (Johnson Surrebuttal)

TCR Rider Removal Update

ALJ Report ¶¶ 162-164
 Ex. Xcel – 17 at 90-91 (Halama Direct)
 Ex. Xcel – 19 at 23 and Schedules 3A-3B at 4 (Halama Rebuttal)
 Ex. DOC-2 at 23-24 and Schedule 1 (Johnson Surrebuttal)

Service Quality

ALJ Report ¶¶ 165-166
 Ex. Xcel-19 at 25-26 and Schedules 3A-3B at 4 (Halama Rebuttal).
 Ex. DOC-2 at 31-32 and Schedule 1 (Johnson Surrebuttal).

Sherco Inventory Write Off

ALJ Report ¶¶ 168-172
 Ex. Xcel – 45 at 58-59 (Capra Direct)
 Ex. Xcel – 19 at 25-26 and Schedules 3A-3B at 4 (Halama Rebuttal)
 Ex. DOC-1 at 39-40 (Johnson Surrebuttal)

Wildfire Mitigation Program

ALJ Report ¶¶ 173-194
 Ex. DOC-2, Schedule 1 at 1 (Johnson Surrebuttal)
 Ex. DOC-9 at 3-656 and Figure 1-2 (Borden Direct)
 Ex. DOC-10 at 24-30 (Borden Surrebuttal)
 Ex. Xcel-34 at 160-184 (Mensen Direct)
 Ex. Xcel-47 at 3-39 (Sherwood Direct).
 Ex. Xcel-48 at 2-9 (Sherwood Supplemental Direct)
 Ex. Xcel-79 at 3-40. (Bloch Supplemental Direct)
 Ex. JIN-1 at 16-23 (Kenworthy Direct)
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 Ex. Xcel-95 (Xcel Correspondence Regarding Wildfire Issue).
 Joint Intervenors Initial Brief at 39-40

Wildfire Mitigation Pole Loading Clearance (PLC) program

ALJ Report ¶¶ 195-199

- Ex. Xcel-48 at 2-4 (Sherwood Supplemental Direct)
- Ex. Xcel-79 at 24-27 (Bloch Direct)
- Ex. Xcel-18 at 5 (Halama Supplemental Direct).
- Ex. Xcel-19 at 29 and Schedules 3A and 3B (Halama Rebuttal).
- Ex. DOC-2 at 31-32 and Schedule 1 (Johnson Surrebuttal)

Research and Experimentation Federal and State Tax Credits

- ALJ Report ¶¶ 200-203
- Ex. DOC-7 at 11-15 (Uphus Direct)
- Ex. DOC-8 at 5-6 (Uphus Surrebuttal)
- Xcel Initial, Vol. 4, MYRP Workpapers, III. P8-2 (Other Tax Credits) at 1
- Ex. Xcel-19, at 39-42 (Halama Rebuttal)

North Dakota Investment Tax Credit

- ALJ Report ¶¶ 203-205
- Ex. Xcel-17 at 128 (Halama Direct)
- Ex. DOC-7 at 8-9 (Uphus Direct).
- Ex. Xcel-19 at 41-42 and Schedule 4 (Halama Rebuttal)
- Ex. DOC-8 at 4 (Uphus Surrebuttal)

Distribution Communications Infrastructure

- ALJ Report ¶¶ 206-210
- Ex. Xcel-36 at 101-104 (Mensen Direct)
- Ex. Xcel-35 at 27-33 (Mensen Rebuttal).
- Ex. JIN-1 at 26-30 (Kenworthy Direct).
- Ex. JIN-4 at 17-18 (Kenworthy Surrebuttal).

Bad Debt Expense Adjustment

- ALJ Report ¶¶ 211-216
- Ex. Xcel – 17 at 74 (Halama Direct)
- Ex. Xcel –19 at 30-31 and Schedules 3A-3B at 4 (Halama Rebuttal)
- Ex. Xcel –38 at 35-46 (Lindgren Direct)
- Ex. Xcel –81 at 3-4 (Howard Rebuttal)
- Ex. DOC –23 at 19-20 (Jones Direct)
- Ex. DOC –24 at 8-9 (Jones Surrebuttal)
- Ex. DOC –2, Schedule 1 (Johnson Surrebuttal)

Sales True Up

- ALJ Report ¶¶ 268-270
- Ex. Xcel-15 at 37-39 (Liberkowski Direct)
- Ex. Xcel-29 at 13-16 (Levine Direct)
- Ex. Xcel-30 at 2-5 (Levine Rebuttal)
- Ex. Xcel-76 at 7-9 (Paluck Direct)
- Ex. Xcel-77 at 1-20 (Paluck Rebuttal)

Ex. DOC-19 at 9-17 (Bahn Direct)
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Capital True-up

ALJ Report ¶¶ 271-274
Ex. Xcel-15 at 40 (Liberkowski Direct)
Ex. Xcel-19 at 64 (Halama Rebuttal)
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Property Tax True-Up

ALJ Report ¶¶ 275-280
Ex. Xcel-15 at 40-41 (Liberkowski Direct)
Ex. Xcel-51 at 22-23 (Kowalowski Direct)
Ex. Xcel-52 at 20-25 (Kowalowski Rebuttal)
Ex. DOC-23 at 12-13 (Jones Direct)
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Coal Combustion Residuals (CCR) Tracker

ALJ Report ¶¶ 284-292
Ex. Xcel-17 at 117-118 (Halama Direct)
Ex. Xcel-68 at 53-56 (Johnson Direct)
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Ex. Xcel-59 at 14-30 (West Direct)
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ALJ Report ¶¶ 293-295
Ex. Xcel – 17 at 119 (Halama Direct)
Ex. Xcel –19 at 68 (Halama Rebuttal)
Ex. Xcel –71 at 40 (Martin Rebuttal)
Ex. CUB –3 at 24-25 (Levenson-Falk Direct)
Ex. ECC –1 at 13-15 (Shardlow Direct)

Discrete Capacity Project Investments

ALJ Report ¶¶ 217-222
Ex. Xcel-34 at 89-90 (Mensen Direct).
Ex. Xcel-35 at 19-25 (Mensen Rebuttal).
Ex. DOC-24 at 89 and Schedule 2 (Jones Surrebuttal).
Ex. JIN-1 at 24 (Kenworthy Direct).
Joint Intervenors Initial Brief at 45-46.

Deferred Accounting for Emission Allowances

ALJ Report ¶¶ 302-304
Ex. Xcel-17 at 130 (Halama Direct).