MINNESOTA
PUBLIC UTILITIES COMMISSION

Staff Briefing Papers Volume 2: Cost of Capital

Meeting Date	June 11, 2026 – Oral Arguments June 18, 2026 – Deliberations	Agenda Item 1***

Company	Northern States Power Company d/b/a Xcel Energy
Docket No.	**E-002/GR-24-320**
	In the Matter of the Application of Xcel Energy for Authority to Increase Rates for Electric Service in Minnesota
Issues	What is the Appropriate Capital Structure for Xcel Energy? What is the Appropriate Cost of Debt for Xcel Energy? What is the Appropriate Cost of Equity for Xcel Energy? What is the Appropriate Rate of Return for Xcel Energy? Should the Commission approve the Department's prospective recommendations?
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✓ **Relevant Documents** **Date**

Relevant documents are listed on the cover page of Vol. 0 of the briefing papers.

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I. INTRODUCTION

The amount of return allowed on rate base is called the cost of capital and is measured as a percentage. This percentage is multiplied by the rate base to determine return on capital to be allowed to be collected from rates.

An amount equal to the approved rate base times the overall cost of capital will be the authorized Rate of Return (ROR) on Rate Base, a part of the overall revenue requirement.

The overall rate of return reflects the relative proportions of capital securities (i.e., financing) comprising the capitalization of the utility, and their respective costs. A utility's overall rate of return is calculated via the following steps: (1) determining the appropriate capital structure (i.e., the relative percentages of equity and debt); (2) determining the cost of each component in the capital structure (i.e., the cost of debt and the cost of equity); and (3) summing the weighted cost of debt and equity to arrive at the overall rate of return. The following table lays this out in formulaic terms:

Table 201: Overall Cost of Capital/Rate of Return

Type of Capital	Capital Ratio (%)	Cost (%)	Weighted Cost Rates (%)
Long-Term Debt	A	B	C=A*B
Short-Term Debt	D	E	F=D*E
Common Equity	G	H	I=G*H
Total	J=A+D+G		K=C+F+I

As can be seen, once the capital structure, cost of debt, and cost of common equity are determined, the individual weighted costs can be calculated. When that is done, the weighted costs are summed to find the total cost, or overall rate of return.

Generally, the cost rates of long- and short-term debt may be directly observed and are not always a matter of controversy. In this case, cost of debt was not a disputed issue.

Table 202: Agreed Upon Cost of Debt

Type of Capital	2025 Test Year	2026 Plan Year
Long-Term Debt	4.51%	4.53%
Short-Term Debt	5.31%	3.38%

Additionally, the capital structure ratios are undisputed. The results are shown below for each

year of the multi-year rate plan (MYRP).

Table 203: Agreed Upon Capital Structure

Type of Capital	2025 Test Year	2026 Plan Year
Long-Term Debt	46.71%	46.50%
Short-Term Debt	0.79%	1.00%
Common Equity	52.50%	52.50%
Total	100%	100%

II. CAPITAL STRUCTURE

A. Introduction

Capital structure refers to the mix of different financing sources that fund utility operations, including long-term debt, short-term debt, and equity. The mix a utility chooses affects its overall rate of return because each funding source has a different cost associated with it.

Generally, a utility's overall cost of capital is the average of its costs of long-term debt, short-term debt, and equity, weighted by the amount of each type of financing it uses. Thus, to arrive at Xcel Energy's overall rate of return, it is necessary to determine reasonable ratios of long-term debt, short-term debt, and common stock equity for the Company's overall mix of financing.

All other things being equal, more equity in a capital structure makes investing a safer decision for an outside investor. A greater proportion of equity reduces the possibility that there will not be enough earnings to pay interest on the (reduced amount) of debt and, additionally, it increases the probability that sufficient earnings remain to pay dividends on the equity. Where the proportion of debt is small, lenders will also have reduced concerns about recovering their investment in the event of bankruptcy.

Since it is the highest cost form of capital, equity in too great a proportion increases costs to ratepayers, who both pay for too much high-cost equity and too little low-cost debt, and it reduces shareholders' chances to leverage a higher return out of their investment. It is necessary, therefore, to strike an appropriate balance with enough equity for safety but not so much that costs are unnecessarily high.

B. Party Positions

1. Xcel Energy – Initial Filing

Xcel Energy proposed the following capital structure for each year of its two-year MYRP.

Table 204: Xcel Energy Proposed Capital Structure

Type of Capital	2025 Test Year	2026 Plan Year
Long-Term Debt	46.71%	46.50%
Short-Term Debt	0.79%	1.00%
Common Equity	52.50%	52.50%
Total	100%	100%

Xcel noted that the recommended capital structure for 2025 and 2026 are comparable to the capital structure approved by the Commission in NSPM's 2021 Electric multi-year rate case[1] and 2021 Gas rate case.[2] Additionally, Xcel Energy noted that the proposed 52.50 percent equity ratio for both 2025 and 2026 match the equity ratios approved in those cases and is also consistent with the equity ratio reflected in the current unopposed settlement in the 2023 Gas rate case.[3]

2. Department – Direct Testimony

The Department concluded that Xcel Energy did not provide adequate support for its proposed capital structure.[4] However, because Xcel Energy's proposed capital structure reflects its actual capital structure, and because the Company's capital structure has been unchanged for many years, the Department did not recommend an adjustment in this rate case.[5] Instead, the Department recommended that the Commission require Xcel Energy to provide a more robust analysis of its proposed capital structure in its next rate case that considers not just the benefits of lower cost debt attributable to its high equity ratio, but also the additional equity-related costs associated with achieving that lower cost debt.[6]

The Department noted that if, in its next rate case Xcel Energy is unable to provide better support for its proposed equity ratio, they may recommend a lower equity ratio at that time.

3. Xcel Energy – Rebuttal Testimony

In response, Xcel Energy argued that the Commission has consistently authorized a 52.50 percent equity ratio or a similar ratio for nearly two decades,[7] establishing a clear benchmark for financial stability.[8] This structure is also comparable to other peer utilities, and its

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[1] Docket No. E-002/GR-21-630.

[2] Docket No. G-002/GR-21-678.

[3] Docket No. G-002/GR-23-413.

[4] Ex. DOC-12 at 23-24 (Addonizio Direct).

[5] *Id*. at 32.

[6] *Id*.

[7] Ex. Xcel-21 at 4 (Wehner Rebuttal) Xcel Energy noted it has been authorized an equity ratio of ~52.50% since Docket No. E-002/GR-08-1065.

[8] Ex. Xcel-21 at 4 (Wehner Rebuttal).

consistency is expected by credit rating agencies.

C. ALJ Report

The ALJ noted the following in his findings:

> 249. The Department raised concerns with Xcel's proposed equity ratio but did not recommend an alternative capital structure, noting that the Company has had a relatively constant capital structure and that the Commission has approved a 52.5 percent equity ratio in every Xcel rate case since 2008.
>
> 250. The Company's proposed capital structure is reasonable and should be approved by the Commission for ratemaking purposes in this proceeding.
>
> 989. The Department explained that Xcel's equity/debt ratio is higher than any of the members of the Department's proxy group. This is a sign that Xcel Energy, Inc. could be deploying a financial strategy known as "double leverage" by using debt to finance Xcel Energy, Inc.'s equity investments in subsidiaries, resulting in holding incremental debt at the parent level and ensuring a portion of the benefits accrue to shareholders, rather than customers. While the Department did not oppose approval of Xcel's proposed capital structure on this basis, the Department did recommend considering this factor in determining Xcel's authorized ROE.
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> 990. The Department is correct that Xcel has a high equity/debt ratio, and that this ratio benefits shareholders at the expense of customers. Accordingly, the record supports consideration of this factor when deciding where, within the reasonable range of ROEs, the Commission should set the Company's ROE.

D. Exceptions to ALJ Report

Xcel Energy takes exception to ALJ Findings 989 and 990, regarding the Company's capital structure. Xcel Energy noted that the ALJ Report correctly discussed capital structure with the other undisputed or resolved issues in this proceeding, as no party objected to the Company's proposed capital structure for either 2025 or 2026. Moreover, the ALJ Report specifically found: "The Company's proposed capital structure is reasonable and should be approved by the Commission for ratemaking purposes in this proceeding."[9] Nonetheless, elsewhere in the ALJ Report the ALJ stated that the Company "has a high equity/debt ratio, and this ratio benefits shareholders at the expense of customers."[10] Xcel Energy argued that the evidentiary record does not support this Finding.

Xcel Energy noted that the ALJ based its Finding on Department testimony comparing the

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[9] ALJ Finding ¶ 250.

[10] ALJ Finding ¶ 990.

Company's equity ratio to the equity ratios of the Department's proxy group companies.[11] However, in evidence not addressed in the ALJ Report, Xcel Energy explained this is not an appropriate comparison. Xcel Energy argued that the Department testimony compared the Company's proposed capital structure (the capital structure of an operating company utility) to the capital structures of the holding companies in the Department's proxy group. Since capital at the holding company level may finance a variety of investments, including unregulated operations, comparisons to the holding company capital structure may lead to flawed and misleading conclusions. Further Xcel Energy noted that capital structure information is available for the regulated operating utilities of the proxy companies, allowing for an "apples-to-apples" comparison of those operating companies' capital structures to the Company's proposal. That analysis demonstrated that the Company's proposed common equity ratio of 52.50 percent to be within the range of actual common equity ratios for the operating companies within the proxy group. Xcel Energy concluded that the record does not support a finding that the Company has a high equity ratio and ALJ Findings 989 and 990 should not be adopted.

E. Staff Comments

The ALJ's recommendation appears to be reasonable. Staff provide further discussion on the Department's prospective recommendations in Section VI of these briefing papers.

F. Decision Options for Capital Structure

2001. Adopt Xcel Energy's proposed capital structure. [ALJ, Department, Xcel Energy]

If the Commission makes this determination, it may want to adopt one or more of the following recommended by Xcel Energy:

a. Xcel Energy's proposal to delete proposed findings 989 and 990.

III. COST OF DEBT

A. Introduction

The cost of debt typically consists of two components: short – and long-term debt. Typically, short-term debt refers to any financial obligation that is due in less than one year whereas long-term debt are financial obligations for greater than one year.

B. Party Positions

1. Xcel Energy – Initial Filing

Xcel Energy initially proposed the following cost of debt for each year of its three-year MYRP.

Table 205: Xcel Energy initial Cost of Debt proposal

[11] ALJ Finding ¶ 989.

Type of Capital	2025 Test Year	2026 Plan Year
Long-Term Debt	4.51%	4.53%
Short-Term Debt	5.31%	3.38%

Xcel Energy stated that the components of long-term debt and short-term debt were consistent methodology from prior rate cases.[12] Specifically, Xcel Energy noted:

> LTD balances are based on the average of month-end balances for the 12 months in the respective year and include forecasted LTD issuances and retirements during that period.
>
> STD balances are based on the average of month-end balances for the 12 months in the respective year.[13]

2. Department – Direct Testimony

The Department raised concerns regarding how Xcel Energy forecasted the interest rates for its projected debt issuances. First, the Department argued that Xcel Energy's use of a "10% Risk Reserve" (Risk Reserve Adjustment) is unreasonable.[14]

The Department noted Xcel Energy started with a forecast of interest rates on 10- and 30-year U.S. Treasury bonds. Xcel Energy increased these forecasts by 10 percent in an adjustment titled "10% Risk Reserve." For example, the Company's forecasted 30-year Treasury rate for 2026 Q2 was 3.67 percent, meaning its 10 percent adjustment amounted to a 37-basis point increase to 4.04 percent. The Department noted that Xcel Energy had not included such an adjustment in prior rate cases.[15]

In response to discovery requests, Xcel Energy stated it historically relied on an average of two forecasts of interest rates in U.S. Treasury bonds, from S&P and Bloomberg, but recently dropped its subscription to Bloomberg. Xcel Energy stated that Bloomberg's forecast were higher than S&P's and therefore contributed to a more conservative forecast than one that relied on S&P alone. Xcel Energy included the Risk Reserve Adjustment to replace the conservativism added by the Bloomberg forecast. In response, the Department noted that in Xcel Energy's 2023 gas rate case, the Bloomberg forecasts were lower than the S&P forecasts (labeled as IHS Global Insight, which is a part of S&P), contradicting Xcel Energy's assertion that Bloomberg's rates are higher. The Department remarked that removing Bloomberg forecasts from the calculations may result in increased estimates even without the Risk Reserve adjustment.[16]

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[12] Ex. Xcel-20 at 27, 29 (Wehner Direct).

[13] *Id*. at 29.

[14] Ex. DOC-12 at 34 (Addonizio Direct)

[15] *Id*.

[16] *Id*. at 35.

Second, the Department expressed concern that Xcel Energy's decision to estimate the spread between U.S. Treasury Bonds and A rated corporate debt rather than A+ rated corporate debt may result in overestimated interest rates. The Department noted that NSPM's current general issuer rating from S&P is A-, but it would be rated A if not for its indirect exposure to risks at its sister and parent companies. NSPM also has separate ratings for its secured debt, or debt backed by specific assets. NSPM issues long-term debt in the form of mortgage bonds, secured by the Company's property. Because holders of its mortgage bonds have a higher claim to NSPM's assets in the event of a default, those bonds have a higher credit rating than bonds which are not specifically backed by any particular property (i.e., unsecured debt). NSPM's secured debt was rated A+ prior to the wildfire downgrade but was downgraded one notch along with NSPM's general issuer rating.

Generally, A+ rated debt should be expected to be lower cost than A rated debt, and NSPM's use of spreads for A rated bonds may have resulted in higher estimated costs that unreasonably reflect risks external to NSPM. To that end, the Department compared the interest rates on 10-year A+ rated bonds and 10-year A rated bonds to 10-year U.S. Treasury Bonds and noted a 4-basis point spread between A and A+ rated corporate bonds. Based on this analysis the Department concluded that the impact of NSPM's credit downgrade would be small.[17]

The Department stated that if risks outside of NSPM continue to negatively affect its credit rating and NSPM issues more debt with a higher interest rate than it otherwise would have, this issue may become material. For that reason, the Department recommended that the Commission impose a reporting requirement on NSPM for future rate cases. Specifically, the Department recommended that the Commission require NSPM to demonstrate that the costs of each debt issuance made since its prior rate case reasonably reflect the risks of NSPM and are not inflated by risks associated with other entities within the Xcel Energy, Inc. corporate structure.[18]

3. Xcel Energy-Rebuttal Testimony

In Rebuttal Testimony, Xcel Energy noted that the Department recommended approval of Xcel Energy's proposed cost of long-term and short-term debt. In response to the Department's concerns, Xcel Energy argued that the Department's recommendation of a new requirement related to cost of debt issuances is unwarranted and unnecessary. First, Xcel Energy noted it already must report to the Commission within 20 days of each security issuance. Any such report includes an analysis from an underwriting bank detailing the transaction's performance. Second, from a theoretical standpoint, the Department's recommendation that Xcel Energy be required to "demonstrate that the costs of each debt issuance made since its prior rate case reasonably reflect the risks of [the Company] and are not inflated by risks associated with other

[17] *Id*.at 37.

[18] *Id*. at 38.

entities within the Xcel Energy, Inc. corporate structure" is unworkable.[19] Xcel Energy argued that credit markets do not operate in a vacuum; they evaluate the entire corporate family's financial health and numerous other factors, including prevailing interest rates, investor demand, and the overall economic climate. Additionally, Xcel Energy stated that the Department's desired requirement would force the Company to prove a negative, which is logically impossible, and would rely on layers of assumptions and unprovable counterfactuals. Therefore, the Department's recommendation should be rejected.[20]

C. ALJ Report

The ALJ noted the following in his findings:

> 253. The Company's proposed costs of long-term debt for 2025 and 2026 are reasonable and should be approved by the Commission for ratemaking purposes in this proceeding.
>
> 256. The Company's proposed costs of short-term debt for 2025 and 2026 are reasonable and should be approved by the Commission for ratemaking purposes in this proceeding.

D. Exceptions to ALJ Report

No exceptions were filed on this issue.

E. Staff Comments

The ALJ's recommendations appear reasonable. Staff provides further discussion on the Department's prospective recommendations in Section VI of these briefing papers.

F. Decision Options for Cost of Debt

2002. Adopt Xcel Energy's proposed cost of long-term debt. [ALJ, Department, Xcel Energy]

2003. Adopt Xcel Energy's proposed cost of short-term debt. [ALJ, Department, Xcel Energy]

IV. FLOTATION COST ADJUSTMENT

A. Introduction

Flotation costs are associated with the sale of new issues of common stock. These costs include out-of-pocket expenditures for preparation, filing, underwriting, and other issuance costs. Due to issuance costs, the price an investor pays for a new share is higher than the price the

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[19] Ex. Xcel-21 at 5 (Wehner Rebuttal).

[20] *Id*. at 5-6.

company issuing the new share receives. As a result, the Company must earn a higher percentage return on its stock issuance proceeds than investors require on their investments to meet investors' required rate of return.

Both Xcel Energy and the Department included flotation costs in their return on equity calculations. Xcel Energy stated that it is important to recognize flotation costs in the allowed ROE in order to attract and retain new investors, a regulated utility must have the opportunity to earn a return that is both competitive and compensatory. To the extent that a regulated utility is denied recovery of prudently incurred flotation costs, actual returns will fall short of expected returns, diminishing the Company's ability to attract adequate capital on reasonable terms.

B. Party Positions

1. Xcel Energy – Initial Filing

Xcel Energy argued that flotation costs recovery is justified by the academic and financial communities and there is no other mechanism through which costs can be recognized and recovered.[21] Based on its calculations, Xcel Energy proposed a flotation cost adjustment of 7 basis points.[22]

2. Department – Direct Testimony

The Department concluded that Xcel Energy's proposed flotation cost adjustment was reasonable. Specifically, the Department noted that "[a] flotation cost adjustment is necessary to fairly compensate investors for flotation costs incurred in all past equity issuances. Flotation costs are permanent, meaning an adjustment is required for flotation costs incurred for all past issuances; otherwise, investors will not receive their required return. Flotation costs have long been explicitly included in the Company's cost of debt issued in the past, and the same principle applies to the Company's issuance of common equity."[23]

The Department determined that a reasonable flotation cost was 7-8 basis points.[24]

3. XLI – Direct Testimony

XLI argued that the Company is a regulated utility that does not issue stock and therefore does not incur flotation costs. XLI recommended denial of flotation costs. Specifically, XLI stated:

> NSPM is a regulated utility that does not issue stock and, therefore, does not incur flotation costs. The flotation costs are incurred by NSPM's parent

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[21] Ex. Xcel-24 at 60-61 (Nowak Direct).

[22] *Id*. at 61.

[23] Ex. DOC-12 at 55-56 (Addonizio Direct).

[24] *Id*. at 57.

company, Xcel Energy — not NSPM. Therefore, a flotation cost adjustment is not necessary.[25]

C. ALJ Report

The ALJ approved the proposed Flotation cost adjustment of 8 basis points recommended by both the Department and Xcel Energy. Specifically, the ALJ noted the following in his findings:

> 966. Flotation costs are the costs of issuing new shares of common stock, and include compensation for the investment banks underwriting the issuance, legal fees, a registration fee paid to the United States Securities and Exchange Commission, etc.
>
> 967. Witness LaConte did not provide a flotation cost adjustment, arguing that it was unnecessary because the adjustment does not reflect actual flotation costs incurred by Xcel.
>
> 968. A flotation cost adjustment is necessary to fairly compensate investors for flotation costs incurred in all past equity issuances. Flotation costs are permanent, meaning an adjustment is required for flotation costs incurred for all past issuances; otherwise investors will not receive their required return. Flotation costs have long been explicitly included in the Company's cost of debt issued in the past, and the same principle applies to the Company's issuance of common equity.
>
> 969. The Company provided the data necessary to compute the Company's historical flotation cost.
>
> 992. As discussed in more detail above, the following findings inform the state of the record:
>
> . . .
>
> f. It is reasonable to include a flotation cost adjustment of eight basis points (which is reflected in the Company's Two-Growth DCF analysis and the Department's Multi-Stage DCF analysis).

D. Exceptions to ALJ Report

No exceptions were filed on this issue.

E. Staff Comments

The ALJ's recommendation appears to be reasonable.

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[25] Ex. XLI-1 at 40 (LaConte Direct).

F. Decision Options for Flotation Costs

[The Commission may select one of these options, but does not need to if a final ROE is selected]

2004. Adopt Xcel Energy's proposed flotation costs of 8 basis points. [ALJ, Department, Xcel Energy]

2005. Deny recovery of flotation costs. [XLI]

V. COST OF EQUITY

A. Background and Introduction

The general criteria informing fair rate of return decisions were established in a landmark case, *Bluefield Water Works & Improvement Company v. Public Service Commission of West Virginia*. In that case, the United States Supreme Court ruled that:

> The return should be reasonably sufficient to assure confidence in the financial soundness of the utility, and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties. A rate of return may be reasonable at one time and become too high or too low by changes affecting opportunities for investment, the money market, and business conditions generally.[26]

In *Federal Power Commission v. Hope Natural Gas Company*, the Supreme Court further elaborated on the standard of reasonable return on equity:

> From the investor or company point of view, it is important that there be enough revenue not only for operating expenses, but also for the capital costs of the business. These include service on the debt and dividends on the stock. . . . By that standard, the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and attract capital.[27]

Additionally, the Court reiterated that the process also involves the balancing of interests between investors and ratepayers:

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[26] *Bluefield Water Works & Improvement Company v. Public Service Commission of West Virginia*, 262 U.S. 679, 43 S. Ct. 675 (1923).

[27] *Federal Power Commission v. Hope Natural Gas Co*., 320 U.S. 591, 64 S. Ct. 281 (1944).

> [t]he rate-making process […] i.e., the fixing of 'just and reasonable' rates, involves a balancing of the investor and the consumer interests.[28]

The Minnesota Supreme Court has adopted the *Bluefield* and *Hope* requirements, including *Bluefield's* command that:

> Rates which are not sufficient to yield a reasonable return on the value of the property used, at the time it is being used to render the service, are unjust, unreasonable, and confiscatory, and their enforcement deprives the public utility company of its property in violation of the Fourteenth Amendment.[29]

The Hibbing Court further described the establishment of a rate of return as a quasi-judicial function which involves a factual determination of "a fair rate of return which will provide earnings to investors comparable to those realized in other businesses which are attended by similar risk,"[30] and stated that "[t]o peg an established rate to a rate advocated by any one of several expert witnesses is an arbitrary delegation of that duty."[31]

Setting the cost of equity is a fact-intensive and record-specific judgment. The Commission must ultimately establish a reasonable rate of return that is supported by the evidence in the record considered in its entirety.[32] The Commission considers the record as whole, with the objective of establishing a reasonable return based on the record in its entirety. Historically, to identify a range of reasonable ROEs and ultimately determine an allowed ROE, the Commission has relied on expert witnesses' analytical modeling methods, as well as the application of judgment, applied to comparable (proxy) companies.

The allowed ROE has a substantial financial impact on the utility's revenue requirement and, therefore, on what consumers must pay. In this case, each additional basis point of authorized ROE adds approximately $985,000 to Xcel Energy's 2025 revenue deficiency.[33]

B. Additional Risk Adjustments

1. Introduction

In its Petition, Xcel Energy briefly discussed the regulatory framework in which NSPM and its proxy companies operate, Xcel Energy ultimately concluded that NSPM is no more or less risky

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[28] *Id.*

[29] *Hibbing Taconite Co. v. Minn. Pub. Serv. Comm'n*, 302 N.W.2d 5, 10 (Minn. 1980), citing *Bluefield*, 262 U.S. at 690, 43 S. Ct. at 678.

[30] *Hibbing*, 302 N.W.2d at 9–10 (quoting *Northwestern Bell Telephone Co. v. State*, 299 Minn. 1, 5–6, 216 N.W.2d 841, 846 (1974)).

[31] *Hibbing*, 302 N.W.2d at 11.

[32] *See In re: App. of Minn. Power for Auth. to Increase Rates for Elec. Serv. in Minn*., 838 N.W.2d 747, 760 (2013) (describing the substantial evidence test, and citing *Reserve Min. Co. v. Herbst*, 171 N.W.2d 712, 825 (1977)).

[33] Ex. DOC-12 at 43 (Addonizio Direct).

than its proxy group, and therefore no adjustment to model results was required to determine a reasonable allowed ROE for the Company.[34] The Department agreed with this analysis.[35]

XLI however, recommended two adjustments: 1) a 50 basis point risk adjustment recognizing NSPM's reduced financial risk compared to companies in XLI's proxy group; and 2) a 10-basis point adjustment because NSPM is not meeting its requirement to provide reliable billing and customer service.[36]

2. Party Positions

a. XLI – Direct Testimony

i. 50-basis point reduction due to reduced financial risk

XLI argued that Xcel Energy's MYRP, sales true-up, and numerous adjustment clauses "virtually eliminate" NSPM's risk for recovering its revenue requirement, thus, the reduced risk should be reflected in NSPM's authorized ROE.[37]

Specifically, XLI argued:

> Reducing NSPM's proposed ROE by 50-basis points reduces its revenue requirement by $48.8 million in 2025 and $51.7 million in 2026, as shown in Schedule 9. NSPM recovered approximately $39 million through its sales true-up in 2024 alone. Therefore, the risk trade-off for implementing a sales true-up, as well as the numerous adjustment clauses, should be a reduction of 50-basis points in NSPM's authorized ROE. In fact, as shown above in Table 3, NSPM's authorized ROE in 2020 and 2021 was 9.06% and NSPM performed very well financially.
>
> Furthermore, Schedule 10 provides a list of the 58 operating companies in my proxy group and any adjustment clauses they may have. Out of the possible eight adjustment clauses or other regulatory mechanisms available, NSPM has six, with only seven other companies having six or more adjustment clauses. Therefore, it is clear that NSPM has much lower financial risk as compared to the proxy group, when comparing not only the sales true-up, but also the MYRP, the numerous adjustment clauses, interim rates and a projected test-year. Therefore, a 50-basis point downward adjustment is warranted. This results in a 9.06% ROE.

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[34] Ex. Xcel- 24 at 55-56 (Nowak Direct).

[35] Ex. DOC-12 at 99 (Addonizio Direct).

[36] Ex. XLI-1 at 28-29 (LaConte Direct).

[37] *Id*. at 29.

ii. 10-basis point reduction due to failure to provide reliable billing and customer service

XLI noted that starting in 2022, at least 23 Building Owners and Managers Association of Greater Minneapolis (BOMA) members, many of whom own multiple buildings, have experienced issues with NSPM's customer service, including delayed and inaccurate bills, misapplied payments, and ineffective communications and resolutions.[38] XLI noted that NSPM has had extensive billing and customer service issues that have caused significant billing issues for BOMA members, despite their numerous attempts to remedy the situation.[39] Therefore, due to NSPM's negligence regarding its billing and customer service issues and failure to rectify the problems, XLI recommended that NSPM's authorized ROE be reduced by an additional 10-basis points, because the Company is not meeting its requirement to provide reliable billing and customer service. XLI argued that until NSPM makes significant improvements to its billing and customer service operations, it should not be allowed to recover greater returns from its captive ratepayers.[40]

b. Xcel Energy – Rebuttal Testimony

i. 50-basis point reduction due to reduced financial risk

In response, Xcel Energy argued that XLI's position relied on an incomplete assessment of not only the comparability across other utilities, but also the actual impact of the regulatory mechanisms on earnings. Xcel Energy noted that while NSPM has some revenue protection against fluctuations in customer usage and alternative cost recovery mechanisms, 52 percent of the operating companies in the proxy group have either full or partial revenue decoupling mechanisms, and 82 percent of these operating companies have similar cost recovery mechanisms for capital investment. Based on this review, XLI's adjustment to "recognize NSPM's reduced financial risk" compared to the proxy group is unreasonable and without justification.

Additionally, Xcel Energy argued that XLI's assertion that the sales true-up mechanism eliminates financial risk and guarantees that NSPM will recover its revenue requirement throughout the MYRP is incorrect. Xcel Energy cited to a Moody's Investor Service (Moody's) report that clarified that NSPM's recovery mechanisms improve the timeliness of recovery, but are still subject to disallowances, therefore, recovery mechanisms do not eliminate financial risk and do not guarantee a full recovery of revenue requirement.[41] Moody's noted, although NSPM has fuel clause and purchased gas adjustments, the Commission has required refunds or disallowed recovery of costs in past adjustment mechanism review dockets.

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[38] BOMA is a trade association representing commercial real estate interests in Minneapolis and neighboring communities.

[39] This billing issue for BOMA is discussed more thoroughly in the customer O&M section of Vol. 1 of these briefing papers.

[40] Ex. XLI-1 at 30 (Laconte Direct).

[41] Ex. Xcel-25 at 79-80 (Nowak Rebuttal).

ii. 10-basis point reduction due to failure to provide reliable billing and customer service

Xcel Energy noted that BOMA raised substantially similar complaints in a July 7, 2025 Letter to the Company, in a Public Comment filed on July 2, 2025 in the instant docket – Docket No. E-002/GR-24-320, and in July 11, 2025 Comments in Safety, Reliability, and Service Quality (SRSQ) – Docket No. E-002/M-25-27. Xcel Energy stated that it responded to the BOMA complaint in detail in its response to Department Information Request No. 1200, however, Xcel Energy did not include its response to Department Information Request No. 1200 in its rebuttal. Xcel Energy argued that it has attempted to resolve the issue with BOMA but noted that BOMA has not been forthcoming with needed information. Specifically, Xcel Energy stated:

> …outstanding billing concerns for BOMA members is made significantly more difficult by BOMA's ongoing refusal to identify the specific BOMA members (Xcel Energy customers) raising these concerns. We have requested this information since April 2025 and BOMA has yet to provide it. Without information on the specific Xcel Energy customers who have concerns, it is much more difficult for the Company to identify and resolve concerns on a specific customer's account.[42]

Finally, Xcel Energy noted that on September 10, 2025, the Commission opened an investigation into Xcel Energy's Residential billing errors.[43] The investigation reviews an increase in billing-related complaints filed with the Commission's Consumer Affairs Office, particularly in 2023 to 2025 relative to prior years, and asks the Company to answer a series of questions about the causes of the increase and steps the Company is taking to address outstanding billing issues and prevent issues from recurring. Xcel Energy acknowledged that, due to a variety of coinciding causes, the number of residential customer billing complaints has increased significantly since 2022. Xcel Energy stated that it takes the increase in billing complaints seriously, acknowledging it has fallen short of its goals on customer satisfaction, and are putting a high priority on restoring performance in this area.[44]

c. XLI – Surrebuttal Testimony

XLI continued to support its proposed financial risk reduction. XLI argued that Xcel Energy's claim that disallowances put cost recovery at risk is unreasonable. XLI pointed out that any Commission disallowance of costs were due to imprudence on NSPM's part. In response to the three cases of disallowance cited by Xcel Energy, XLI argued Xcel Energy failed to acknowledge the disallowances or refunds were due to imprudence on NSPM's part. In the first case, involving an unplanned outage at the Prairie Island Nuclear facility in October 2023, occurred when workers unintentionally struck and damaged an underground cable while excavating for an unrelated project. The Commission denied recovery of energy replacement costs and

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[42] Ex. Xcel-81 at 7 (Howard Rebuttal).

[43] *In the Matter of an Investigation into Xcel Energy's Residential Billing Errors*, Docket No. E,G-002/CI-25-341.

[44] Ex. Xcel-81 at 8 (Howard Rebuttal).

concluded that the incident and outage resulted from Xcel Energy's imprudence and is not appropriate for cost recovery.[45]

Xcel Energy cited two other cases wherein the Commission denied recovery of certain costs due to NSPM's imprudent actions. In the first case, the Commission disallowed "recovery of the costs Xcel Energy should have avoided through prudent maintenance and operation of its peak-shaving facilities."[46] In the second case the Commission found that the imprudently incurred replacement power costs due to the Shero Unit 3 failure should be refunded to customers.[47]

If the Company had not acted imprudently, it would have retained these funds instead of being required to refund them to customers. NSPM is responsible for the denial of recovery regarding these costs and should not be rewarded with a higher ROE — at the detriment to its customers — because it acted imprudently. Therefore, Xcel Energy's assertion that NSPM's "recovery mechanisms may improve the timeliness of recovery, but disallowances continue to put cost recovery risk" is not justification to deny reduction to NSPM's ROE to account for reduced financial risk — the claim is unfounded and should be rejected.[48]

Finally, XLI argued that NSPM has numerous adjustment clauses and riders at its disposal, in addition to the sales true-up and the MYRP, all of which reduce regulatory lag and allow NSPM to increase its rates for two years without filing a rate case. As examples, NSPM's riders include, but are not limited to, the following: Conservation Improvement Program Adjustment Rider; Environmental Improvement Rider; State Energy Policy Rate Rider; Renewable Development Fund Rider; Transmission Cost Recovery Rider; and Renewable Energy Standard (RES) Rider — all of which are adjusted annually. Additionally, NSPM has the ability to implement interim rates, which allows it to receive an increase in rates prior to the Commission issuing an Order on its rate case and, furthermore, uses a projected test year when setting rates. All of these contribute to reduced regulatory lag and reduced financial risk. Therefore, XLI concluded that its recommendation to reduce NSPM's ROE by 50-basis points is well reasoned.[49]

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[45] *In the Matter of Xcel Energy's Petition for Approval of its 2023 Annual Fuel Forecast and Monthly Fuel Costs Changes*, Order Approving 2023 Fuel-Clause True-Up Report, Requiring Additional Filings, Finding Imprudence, and Notice of and Order for Hearing, Docket No. E-002/AA-22-179 at 2 (Nov. 15, 2024).

[46] *In the Matter of the Petition of Xcel Northern States Power Company d/b/a Xcel Energy to Recover February 2021 Natural Gas Cost*, Order Disallowing Recovery of Certain Natural Gas Costs. et al., Docket Nos. G-002/CI-21-610 and G-999/CI-21-135, Order Disallowing Recovery of Certain Natural Gas Costs and Requiring Further Action at 38-39 (Oct. 19, 2022) (eDocket Nos. 202210-189967-01, 202210-189968-02, 202210-189969-02).

[47] *In the Matter of the Review of the 2012-2013 Annual Automatic Adjustment Reports for All Electric Utilities*, 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 16, 25, 37, 38 (Dec. 24, 2024) (eDocket No. 202412-213317-01).

[48] Ex. XLI-7 at 10-11 (LaConte Surrebuttal).

[49] *Id*. at 12.

3. ALJ Report

The ALJ found that it was not necessary to include any additional risk adjustments. Specifically, the ALJ stated:

> 987. The record does not support XLI's proposed downward risk reduction adjustment of 50 basis points. This would be a dramatic adjustment to the Company's ROE. Further, of the companies in Xcel's proxy group, 47 percent allow fully- or partially-forecasted test years, 52 present have full or partial decoupling mechanisms, and 82 percent have cost recovery mechanisms for capital adjustments. Thus, Xcel's purported reduced risk as compared to the proxy group is, at best, significantly overstated by XLI.
>
> 988. The record also does not support a downward risk adjustment of ten basis points for customer service issues. As previously discussed, there are other proceedings better suited to address those concerns. Also, a specific basis point adjustment based on these concerns, even if they were well-founded, would imply a level of analytical rigor not supported by the record.

4. Exceptions to ALJ Report

No exceptions were filed on this issue.

5. Staff Comments

Staff concur with the ALJ's reasoning regarding the proposal for additional risk adjustments.

6. Decision Options for Additional Risk Adjustments

[The Commission may select one of these options but does not need to as long as a final ROE is selected]

2006. Approve XLI's proposed 50-basis point reduction. [XLI]

2007. Approve XLI's proposed 10-basis point reduction due to failure to provide reliable billing and customer service. [XLI]

2008. Find that no risk adjustment is necessary. [ALJ, Xcel Energy, Department]

C. Selection of Proxy Groups and Screening Criteria

1. Introduction

Since NSPM is a wholly owned subsidiary of Xcel Energy, Inc., and is not publicly traded on any of the stock exchanges, its cost of equity cannot be directly analyzed. Therefore, it is necessary to develop groups of publicly traded, comparable companies to serve as "proxies" for the Company. The benefit of using a proxy group is that the use of results for a group of companies

moderates the effects of unusual events that may be associated with any one company.

2. Party Positions

a. Xcel Energy – Initial Filing

Xcel Energy used the following different screening criteria to develop a proxy group of 15 vertically integrated electric utility operations.[50]

1. Classified as an Electric Utility by Value Line Investment Survey (Value Line);
2. Consistently pays quarterly cash dividends;
3. Maintains an investment grade long-term issue rating (BBB- or higher) from S&P to ensure the proxy companies have a comparable financial risk profile to that of the Company;
4. Is covered by more than one equity analyst to ensure that estimates are consensus-based;
5. Has positive earnings growth rates, which is a necessary assumption in the DCF model, published by at least two of the following sources: Value Line, First Call (as reported by Yahoo! Finance), and Zacks Investment Research (Zacks);
6. Has company-owned generation assets included in rate base;
7. Regulated net operating income makes up more than 80 percent of the consolidated company's net operating income (based on a 3-year average from 2021-2023) to ensure that the proxy companies are primarily regulated utilities;
8. Regulated electric net operating income makes up more than 80 percent of the consolidated company's regulated net operating income (based on a 3-year average from 2021-2023) to ensure the proxy companies have a comparable business risk profile to that of the Company; and
9. Is not involved in a significant merger, or other transformative transaction, as such activities may have a temporary effect on such companies' stock prices and projections unrelated to the overall cost of capital.

The following companies met these criteria:

[50] Ex. Xcel-24 at 31-32 (Nowak Direct).

Table 206: Xcel Energy Proxy Group Companies

Company Name	Ticker Symbol
Alliant Energy Corporation	LNT
Ameren Corporation	AEE
American Electric Power Company, Inc.	AEP
Duke Energy Corporation	DUK
Entergy Corporation	ETR
Evergy, Inc	EVRG
IDACORP, Inc	IDA
NextEra Energy, Inc.	NEE
NorthWestern Corporation	NWE
OGE Energy Corporation	OGE
Pinnacle West Capital Corporation	PNW
Portland General Electric Co.	POR
PPL Corporation	PPL
Southern Company	SO
TXNM Energy, Inc.	TXNM

b. Department - Direct Testimony

The Department began with a list of all companies categorized as electric utilities by Value Line. From the list of 36 companies, the Department applied the following screening criteria:[51]

1. Eliminated companies with Standard & Poor (S&P) credit ratings outside of the BBB to AA- range;
2. Eliminated companies that receive less than 60 percent of their operating income from regulated retail electric operations;
3. Eliminated companies if the total amount of electricity generated by facilities they own is less than 30 percent of their total electricity sales;
4. Eliminated companies that do not have at least two positive earnings growth estimates from equity analysts, stable dividends, or are currently involved in, or have recently completed, mergers, acquisitions, or other significant corporate transactions.

This resulted in a proxy group of 16 companies:

[51] Ex. DOC-12 at 16-20 (Addonizio Direct).

Table 207: Department Proxy Group

Company Name	Ticker Symbol
Alliant Energy Corporation	LNT
American Electric Power Company, Inc.	AEP
Avista Corporation	AVA
CMS Energy Corporation	CMS
Dominion Energy, Inc.	D
Duke Energy Corporation	DUK
Entergy Corporation	ETR
Evergy, Inc.	EVRG
IDACORP, Inc.	IDA
NextEra Energy, Inc.	NEE
NorthWestern Corporation	NWE
OGE Energy Corp.	OGE
Pinnacle West Capital Corporation	PNW
Portland General Electric Company	POR
PPL Corporation	PPL
The Southern Company	SO

The Department noted a few differences between Xcel Energy's Proxy Group and the Department's Proxy Group.

Xcel Energy's proxy group includes Ameren Corporation (Ameren), and TXNM Energy (TXNM), while the Department's Proxy Group excludes both. The Department Proxy Group includes Avista Corporation, CMS Energy, and Dominion Energy. The differing treatments of Ameren, Avista, and CMS result from differences in the Department and Xcel Energy's operating income screens, and since Xcel Energy's filing, TXNM announced that it has agreed to be acquired by Blackstone Infrastructure and taken private. These differences do not produce significant differences in modelling results or recommendations and therefore the Department did not express any major concerns.

Additionally, Xcel Energy excluded Dominion Energy (Dominion) from its proxy group due to merger and acquisition activity. Dominion was involved in several transactions in 2024 totaling approximately $17 billion, mostly the sale of assets or subsidiaries. However, the Department noted that those transactions closed in 2024 and, while significant in dollar amount, are not excessively large relative to Dominion's roughly $50 billion market capitalization. For these reasons, the Department included it in the Department Proxy Group. The Department noted that the inclusion of Dominion significantly increases its constant- and two-growth DCF results due to its high 3–5-year earnings growth forecasts.

c. XLI – Direct Testimony

XLI used a proxy group of 15 utilities. XLI's proxy group is identical to Xcel Energy's proxy group.

XLI used the following screening criteria:[52]

1. Consistently pays positive, quarterly cash dividends;
2. Classified as an electric utility by Value Line Investment Survey (Value Line);
3. Covered by more than one equity analyst;
4. Regulated electric operating revenues greater than 50 percent of total operating revenues;
5. Moody's credit rating of Baa3 or higher;
6. Has positive earnings growth by at least two of the following analysts: Value Line, Yahoo! Finance, or Zacks Investment Research (Zacks); and
7. Not involved in any merger or acquisition related activities within the past six months.

d. CUB – Direct Testimony

CUB did not create its own proxy group but rather used the 15 utility stocks in Xcel Energy's proxy group.[53]

e. Xcel Energy - Rebuttal Testimony

Xcel Energy stated that it generally relied on the same proxy group of electric utilities; however, due to recent mergers and acquisitions, two companies no longer met their screening criteria. Xcel Energy removed Northwestern Corporation; and (2) TXNM Energy, Inc.[54] Xcel Energy also added Dominion Resources, Inc, to the proxy group as it met its screening criteria.[55]

f. Department - Surrebuttal Testimony

Similar to Xcel Energy, the Department updated its proxy group excluding Northwestern Energy group, Inc. due to merger activity.

g. XLI - Surrebuttal Testimony

XLI did not update its proxy group in surrebuttal testimony.

h. CUB - Surrebuttal Testimony

CUB did not update its proxy group in surrebuttal testimony.

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[52] Ex. XLI-1 at 21-22 (LaConte Direct).

[53] Ex. CUB-1 at 10 (Kihm Direct).

[54] NorthWestern Corporation: On August 18, 2025, Black Hills Corporation agreed to acquire NorthWestern for $3.6 billion, with the transaction expecting to close within 12 to 15 months. TXNM Energy, Inc: On May 18, 2025, Blackstone Infrastructure Partners, L.P. agreed to acquire TXNM Energy, Inc for $5.7 billion.

[55] On March 4, 2024, Dominion Resources, Inc completed a divestiture of offshore wind assets for $3 billion, and therefore failed Xcel Energy's screening process for the analysis in Direct Testimony but that transaction falls outside the updated analytical period.

3. ALJ Report

The ALJ determined that differences in the proxy group did not materially impact the results of the various models.

Specifically, the ALJ noted the following in his findings:

> 898. One method for estimating Xcel's cost of equity in this proceeding is to identify a proxy group of publicly traded companies that pose risks to equity investors similar to the investment risks of Xcel, which is not publicly traded company poses. It is notable that while Xcel is not itself public traded, its parent Xcel Energy, Inc. is.
>
> 899. The Department compiled a list of all companies categorized as electric utilities by Value Line, a well-known investor service. The Department then applied various screens designed to make sure the proxy group companies were reasonably comparable to Xcel. This process produced a list of 16 companies.
>
> 900. Starting with a list 36 investor-owned electric utility companies identified by Value Line, Xcel developed its own proxy group by applying various screens. This process produced a list of 15 companies as of Direct Testimony.
>
> 901. In Rebuttal Testimony, the Company applied the same screening criteria which resulted in the removal of two companies due to recent merger and acquisition activity and added a company that now met its criteria.
>
> 902. CUB and XLI utilized the same proxy group that Xcel used in its Direct Testimony.
>
> 903. Differences in the proxy groups utilized by parties did not meaningfully cause differences in the results of their various models. Rather, other analytic, methodological, and philosophical determinations account for the disparate ROE recommendations in this proceeding.

4. Exceptions to ALJ Report

No exceptions were filed on this issue.

5. Staff Comments

Staff notes that the Commission is not required to make an explicit determination regarding the appropriate proxy group to determine an approved ROE.

6. Decision Options for Selection of Proxy Groups and Screening Criteria

[The Commission may select one of these options but does not need to as long as a final ROE is selected]

2009. Adopt Xcel Energy's screening criteria and resulting proxy group. [Xcel Energy]

2010 Adopt the Department's screening criteria and resulting proxy group. [Department]

2011 Adopt specific screening criteria and select a proxy group based on those criteria.

D. Selection of Analytical Models and Growth Rates

1. Introduction

Xcel Energy, the Department, XLI, and CUB filed several analytical models and their variants as justification for the requested ROE. Xcel Energy relied on the Constant Growth Discounted Cash Flow (CGDCF) Model, Two-Growth Discounted Cash Flow (TGDCF) Model, Capital Asset Pricing Model (CAPM), Risk Premium, and Expected Earnings Analysis to support its results.

The Department proposed using a Multi-Stage DCF Model with supporting evidence from the CGDCF, TGDCF, and CAPM. The Department critiqued the models used by Xcel Energy but did not rely on them for its analysis and conclusions.

XLI presented a CGDCF, and TGDCF Model. It then used the CAPM and Risk Premium models as a check on its results.[56]

CUB used a variant of the TGDCF Model and CAPM as a check for reasonableness.

a. Discounted Cash Flow Model

Discounted Cash Flow modeling relies on the concept that a reasonable return on equity can be estimated by examining stock prices and market projections of expected growth for a proxy group of companies assumed to be similar in risk and function to Xcel Energy. Selection of an appropriate proxy group is critical, because different types of companies have different long-term growth prospects, dividend yields, and risk profiles, resulting in very different required capital returns. As an extreme example, an online company in a competitive market will have very different growth prospects and risk profiles from an electric utility and so would be a poor proxy for a company such as Xcel Energy.

Financial theory postulates that the price of the stock in the present period equals the present value of all the expected future dividends discounted by the appropriate rate of return. If annual dividends grow at a constant rate over an infinite period, the required rate of return on

[56] Ex. XLI-4 at 15-16 (LaConte Direct).

common equity capital can be estimated with the following formula:

$$k = \frac{D_1}{P} + g$$

where k is Return on Equity, D_1 is the dividend in year one, P is the average stock price, and g is the forecast earnings growth rate.

Dividend yield used was the actual most recent annual dividend payments for the utility divided by the average stock price over the model period.

As noted above, the forms of Discounted Cash Flow modeling used in this case are the Constant Growth DCF (CGDCF), the Two Growth DCF (TGDCF), and a Multi-Stage Growth DCF (Multi-Stage). Each uses the same basic data, but the CGDCF assumes that projected growth in both the short and long term are the same, while the TGDCF assumes that short-term growth and long-term growth can be different, the Multi-Stage DCF assumes a transition period between short-and long-term growth. The basic approach is to continue the analysis of the constant growth model for five years, but to revise the growth in later years of the model towards the overall mean for companies with growth rates significantly different from the overall mean growth.

b. Capital Asset Pricing Model

The Capital Asset Pricing Model (CAPM) defines risk as the relationship of a security's returns with the market's returns. This relationship is measured by beta (β), an index measure of an individual security's volatility relative to the market. A beta less than 1.0 indicates lower volatility than the market and a beta greater than 1.0 indicates greater volatility than the market. The CAPM assumes that all non-market, or unsystematic, risk can be eliminated through diversification and that investors require compensation for risks that cannot be eliminated through diversification.

The model is applied by adding a risk-free rate of return to a market risk premium. The market risk premium is adjusted proportionally to reflect the systematic risk of the individual security relative to the market as measured by β.

c. Risk Premium Model

This approach is based on the fundamental principle that, because bondholders have a superior right to be repaid, equity investors bear a residual risk associated with equity ownership and therefore require a premium over the return they would have earned as a bondholder. That is, because returns to equity holders have greater risk than returns to bondholders, equity investors must be compensated to bear that risk. Risk premium approaches, therefore, estimate the cost of equity as the sum of the equity risk premium and the yield on a "risk free" class of bonds.

The Risk Premium Model conducted by Xcel Energy calculated the appropriate rate of return by

adding a risk premium to a risk-free interest rate, corresponding in Xcel Energy's case to the return on long-term (30 year) Treasury bond rates. The risk premium estimated by Xcel Energy was calculated by running a regression of risk premiums imputed from electric utility ROE results in jurisdictions across the US (including, but not limited to, Minnesota) from January 1992 through September 2024 against the risk-free interest rate at the time the rate is set.

d. Expected Earning Analysis

The Expected Earnings methodology is a comparable earnings analysis that calculates the earnings that an investor expects to receive on the book value of a stock. The Expected Earnings analysis is a forward-looking estimate of investors' expected returns. The use of an Expected Earnings approach based on the proxy companies provides a range of the expected returns on a group of risk-comparable companies to the subject company. This range is useful in helping to determine the opportunity cost of investing in the subject company, which is relevant in determining a company's ROE.

The Expected Earnings approach relying on expected returns for like-risk companies is a core strength of the model and consistent with the basic tenets of Hope: "the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks." Since the Expected Earnings model provides an accounting-based approach that relies on investment analysts' projections of earnings on book equity, it affords the benefit of analyst insights, knowledge, and expertise in interpreting a given company's earnings prospects in the context of current market conditions. While the Commission has not explicitly relied upon the Expected Earnings approach in its recent ROE determinations, the analysis is used by investors in determining return requirements and accounting-based approach provides a useful benchmark in evaluating the reasonableness of other market-derived analyses.

2. Party Positions

a. Xcel Energy – Initial Filing

As discussed above, Xcel Energy utilized multiple analytical models while also considering various risk adjustments as well as the effect of flotation costs. In its Petition, Xcel Energy recommended approval of a 10.30 percent ROE.

Table 208: Summary of ROE Results

	Average	Median
Primary Analyses		
Average DCF	10.37%	10.43%
Constant Growth DCF	10.41%	10.43%
Two-Growth DCF	10.34%	10.43%
CAPM	11.92%	11.78%
Risk Premium	10.38%	10.38%
Average	**10.89%**	**10.89%**
Benchmark Analyses		
Expected Earnings	10.71%	10.12%

b. Department – Direct Testimony

The Department argued that it is important to balance both investor and consumer interests in determining the appropriate ROE. To that end, the Department recommended a 9.25 percent ROE using its Multi-Stage DCF model based on the Department's proposed proxy group. The Department also conducted a CAPM but used the results as a check on its Multi-Stage DCF analysis.

The Department discussed the difference between cost of equity vs. ROE noting that cost of equity is not synonymous with ROE. The Department defined cost of equity as "the minimum return that investors require to invest in a company's stock and is a long-run concept."[57] In economic terms, it is an opportunity cost – the cost of forgoing the next best alternative investments with similar levels of risk. ROE "is the actual return the company generates."[58]

The Department stated there are strong theoretical reasons to set the allowed ROE equal to the cost of equity, empirical evidence suggests allowed ROEs typically exceed the cost of equity. The Department determined that Xcel Energy's cost of equity is a reasonable starting point in determining a fair allowed ROE for the Company but noted that it does not necessarily follow that the allowed ROE should be set equal to estimates of cost of equity. Specifically, the Department stated:

> Theoretically, competition in the capital markets should drive the expected return on any stock to its cost of equity. If investors, on average, think the expected return on a stock is greater than the cost of equity, they will buy the stock, driving the price up (and therefore the expected return down) to the point that the expected return equals the cost of equity. Conversely, if investors, on average, think the expected return on a stock is lower than the cost of equity, owners of the stock will start to sell it, driving the price down until the expected return increases to the cost of equity. Because stock prices

[57] Ex. DOC-12 at 70-71 (Addonizio Direct).

[58] *Id*.

> adjust such that the expected return is always equal to the cost of equity, new, incremental investors should only ever expect their investments to earn the cost of equity. [59]

The Department estimated Xcel Energy's cost of equity by applying a refinement of the DCF model—called a multi-stage Discounted Cash Flow analysis—to its proxy group. The Department's multi-stage DCF has three stages. In the first stage—years one through five—the model assumes that dividends grow at the forecasted 3-5 year earnings growth rates developed by equity analysts for the proxy group companies. In the second stage, a proxy company's dividend growth rate moves linearly from the equity analyst growth rate to the stage three growth rate. In the third stage, the model assumes that dividends for the proxy group companies grow at the same rate as U.S. gross domestic product (GDP). The Department used two different intervals for the second stage transition period: 10 years and 20 years.[60]

The Department argued that its Multi-Stage DCF shares the positive attributes of the CGDCF and TGDCF models but is superior because it exchanges the subjective growth rates from market analysts for GDP growth estimates from federal entities in the third stage. For the third stage, the Department stated that the Energy Information Administration (EIA) and the U.S. Social Security Administration (SSA), publish long-term average, high, and low-growth GDP forecasts, and the Congressional Budget Office publishes a long-term average GDP growth forecast. The Department used the mean of the three average forecasts as its mean, long-term GDP growth forecast, and the mean of the EIA and SSA high and low forecasts for sensitivity analyses. The Department included a table, reproduced below, summarizing the GDP growth rates and compared them to the mean, high, and low average earnings growth rates used in the first stage of the Department's multi-stage DCF analyses.

Table 209: Summary of Growth Rates

	Low	Mean	High
Long-Term GDP Growth Rates			
Energy Information Administration	3.89%	4.03%	4.62%
Social Security Administration	2.45%	3.96%	5.36%
Congressional Budget Office		3.61%	
Average	3.17%	3.87%	4.99%
Equity Analyst 5-Year Earnings Growth Rates			
Average	6.63%	6.96%	7.29%
Difference	-3.45%	-3.09%	-2.30%

As shown, the average equity analyst earnings growth forecasts are 2.3 to 3.5 percentage points higher than the long-term GDP forecasts.[61]

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[59] Ex. DOC-12 at 71 (Addonizio Direct).

[60] *Id*. at 20, 23-24.

[61] *Id*. at 51.

Regarding the 10 and 20-year transition periods used in the second stage, the Department stated that empirical research suggested that investors treat equity analysts' forecasts as though they apply over a period of five to ten years. Additionally, multi-stage DCF analyses in which the final, steady-state, perpetual stage begins in year 11 are relatively common in utility rate cases. Thus, the Department argued that its use of a 10-year transition period is reasonable and somewhat conservative in the sense it may bias the Department's estimate upward.

Table 210: Summary of Multi-Stage DCF Results[62]

	Mean Low ROE	Mean Avg. ROE	Mean High ROE
Multi-Stage DCF with 10-year 2nd stage	8.16%	8.74%	9.63%
Multi-Stage DCF with 20-year 2nd stage	8.59%	9.13%	9.91%

The Department also provided a summary of the CGDCF and TGDCF analysis as comparison to its recommended Multi-Stage DCF.

Table 211: Summary of Constant Growth and Two-Growth DCF Results[63]

	Mean Low ROE	Mean Avg. ROE	Mean High ROE
Constant Growth DCF	10.57%	10.90%	11.24%
Two-Growth DCF	10.58%	10.81%	11.03%

The Department argued the CGDCF and TGDCF results were not reasonable because the equity analysts' earnings growth used in the models are significantly higher than the low, mean and high estimates of long-term GDP growth, and are therefore not realistic as perpetual growth rates.

c. XLI – Direct Testimony

Similar to the Department, XLI used the CGDCF, TGDCF, and the Multi-Stage DCF to calculate a reasonable ROE. XLI put forth a recommended range from 8.29 percent to 11.84 percent with an average of 9.56 percent.

Table 212: Summary of XLI DCF Results[64]

Model	Value
Constant Growth Low	9.36%

[62] *Id*. at 52.

[63] *Id*. at 54.

[64] Ex. XLI-4 at 25 (LaConte Direct).

Constant Growth Mean	10.38%
Constant Growth High	11.84%
Two-Stage	9.58%
Multi-Stage Low	8.29%
Multi-Stage Mean	8.58%
Multi-Stage High	8.91%
Average	9.56%

In its multi-stage analysis, XLI estimated the growth rate for each period using different methods. The first stage (near-term) growth rate is based on analysts' forecast earnings growth using XLI's constant growth DCF analysis. The second stage (intermediate-growth) growth rates are linear interpolations of the first and third stage numbers. The third stage (long-term) growth rate is the forecast of the long-term growth of the gross domestic product (GDP). Using these inputs, the model calculated the required internal rate of return to meet the estimated dividend growth rates, or the ROE. As shown in the table above, XLI calculated three multi-stage ROE analyses using a low, mean, and high first year growth rate that is based on the analysts' forecast estimates of growth, similar to the constant growth DCF analysis.

Similar to the Department, XLI argued that analysts' growth rates for the first stage may not be sustainable over the long term so it utilized the multi-state model. XLI argued that the multi-stage model recognizes the short-term growth (whether it is higher or lower than the long-term growth rate), but also accounts for a more realistic, long-term growth rate. XLI concluded that analysts' growth rates should be viewed in conjunction with other growth estimates to achieve a reasonable forecast of expected earnings.

d. CUB – Direct Testimony

CUB argued the issue before the Commission when setting the ROE is one of fairness, reflecting a balance between existing (as opposed to potential new) shareholder interests vs. consumer (ratepayers) interests. CUB noted "this is not strictly a finance problem; rather, like many issues that come before the Commission, it is a public policy matter."[65]

CUB discussed the "Capital Attraction Myth" arguing that high ROEs do not attract investors nor do low ROEs repel them. In support, CUB reviewed Xcel Energy's proxy group comparing its cost of equity estimates[66] against *The Value Line Investment Survey's* projected ROEs for the period 2028 to 2030. CUB noted that the stock with the highest expected market return in Xcel Energy's proxy group is Portland General, which has an ROE of 9.5 percent. The Southern Company, which has an ROE of 14.5 percent, cannot produce the same sort of investor returns that Portland General does for one simple reason: stock market pricing. Portland General trades at 1.2 times book value; to buy a share of the Southern Company investors have to pay 3.1 times book value. CUB argued that pricing difference more than offsets the influence of the

[65] Ex. CUB-1 at 9 (Kihm Direct).

[66] Ex. Xcel-24 at Attachment JCN-1, Schedule 2.

difference in the ROE.[67] CUB's overall point is that the risk of stocks is similar, regardless of the ROEs the underlying companies earn. Companies with low ROEs won't consistently produce higher stock returns than will utilities with high ROEs. The investor's expected return (cost of equity) must be similar across all companies in that risk class.

CUB argued that both Xcel Energy's and CUB's analyses show that investors do not expect to earn higher returns by investing in utilities with higher ROEs. Yet, in case after case, commissions hear testimony about the inability of utilities to attract capital. Specifically, CUB argued:

> …those who suggest that the ROE drives investor return expectations fail to recognize that companies with higher ROEs demand higher relative stock prices (higher Price-to-Book ratios). Investing in the financial markets requires considerable discipline. The markets do not make earning superior returns an easy task. Looking at ROEs tells investors nothing about expected stock market returns, which is what investors care about. We see this clearly sent forth in Higgins, Koski, and Mitton's Analysis for Financial Management. Investors cannot earn superior returns by purchasing the stocks of companies with high ROEs:
>
> > It is not enough for investors to find companies capable of generating high ROEs; these companies must be unknown to others, because once they are known, the possibility of high returns to investors will melt away in higher stock prices.[68]

In addition, CUB noted that several years ago the Arizona Corporation Commission cut Arizona Public Service Company's ROE from 10 percent to 8.7 percent. At that time executives at the company suggested the company would have trouble raising capital. CUB noted that not only did the company not have trouble raising capital but its capital additions are now higher than they were when the Arizona Public Service Company's ROE was at 10 percent.

CUB draws a parallel to Xcel Energy's last electric rate case when the Commission reduced the requested ROE of 10.2 percent to 9.25 percent noting that Xcel Energy has had no trouble attracting capital since the Commission's decision.[69]

CUB argued the Commission can move its focus away from the issue of capital attraction, not because it's unimportant, but because capital flows freely from the financial markets to all of the companies in Xcel Energy's comparable risk portfolio regardless of the ROE the companies earn. These companies' ROE range from 8.0 percent to 14.5 percent, yet they have the same access to capital at essentially the same cost rate.

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[67] Ex. CUB-1 at 11 (Kihm Direct).

[68] *Id*. at 12-13.

[69] Id. at 14.

Ultimately, CUB considered a range of reasonable ROEs somewhere between 7.7 percent to 9.3 percent with Xcel Energy's cost of equity at 7.7 percent[70] serving as the low end. CUB disputed Xcel Energy's use of equity analysts growth rates and noted that the financial literature considered using stock analyst growth rates to be "naïve and careless."[71] CUB argued that the highest long-term growth rate that any firm can achieve is the GDP growth rate, which is about 4.0 percent as of the date of its testimony.[72] Specifically, CUB argued:

> That stock analysts have useful information is undeniable. But that does not mean that their growth rates, as reported, are useful as long-run projections. The evidence is that investors do consider the growth rates, but when estimating stock market values, they lower the growth rates because of known and predictable forecast errors. If regulators do not also reduce those growth rates to adjust for those errors, they will not be mimicking the way that investors use them.[73]

Noting that the current yield of the 10-year U.S. Treasury note was 4.2 percent and the cost of equity for the broad market was 9.3 percent CUB inputted this information into their DCF and CAPM models to arrive at the following cost of equity figures utilizing Xcel Energy's proxy group.

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[70] Ex. CUB-1 at 36-37 (Kihm Direct).

[71] *Id*. at 33.

[72] *Id*.

[73] *Id*.

Table 213: CUB Cost of Equity Calculations[74]

COMPANY	CAPM	ECAPM	SPOT PRICE DCF	AVG PRICE DCF	ALL MODELS AVG COST OF EQUITY
Alliant Energy Corporation	7.6%	8.0%	7.4%	7.5%	7.6%
Ameren Corporation	7.4%	7.9%	7.1%	7.2%	7.4%
American Electric Power	7.0%	7.6%	7.5%	7.7%	7.4%
Duke Energy Corporation	6.8%	7.4%	7.6%	7.7%	7.4%
Entergy Corporation	7.7%	8.1%	6.8%	6.9%	7.4%
Evergy, Inc.	7.2%	7.7%	9.2%	9.4%	8.4%
IDACORP, Inc	7.4%	7.9%	7.0%	7.1%	7.4%
NextEra Energy, Inc	8.1%	8.4%	8.2%	8.0%	8.2%
NorthWestern Corporation	7.0%	7.6%	8.5%	8.6%	7.9%
OGE Energy	7.8%	8.2%	7.8%	7.8%	7.9%
Pinnacle West Corporation	7.1%	7.6%	7.8%	7.8%	7.6%
Portland General Electric Company	7.5%	8.0%	9.4%	9.5%	8.6%
PPL Corp	7.9%	8.2%	7.4%	7.4%	7.7%
Southern Company	7.0%	7.6%	7.1%	7.1%	7.2%
TXNM Energy, Inc	6.1%	6.9%	7.2%	7.2%	6.9%
AVERAGE	7.3%	7.8%	7.7%	7.8%	7.7%

Ultimately, CUB recommended the Commission approve an ROE of 9 percent. CUB did not use an analytical model to form its recommendation but rather used its “expert judgment” as a guide. Specifically, CUB stated:

> There are several aspects that guide the recommendation. The Court is clear that there is no "legalistic formula." Rather, "expert judgment" must be the guide. In keeping with that directive. I will not point to an arithmetic solution that sums to 9.0%, but rather will rely on my 44 years of experience in utility regulation, especially as it relates to observing how regulators make such decisions. In my 21 years on the Wisconsin Commission staff, I not only saw open meeting discussions of ROE determinations but was also privy to private deliberations in that regard.
>
> There are some supporting preliminary figures that point us in an initial quantitative direction. We start with the currently authorized return of 9.25%. In FPC v Hope, the Court finds that a previously approved return has a "presumption of validity." That does not mean that that is necessarily the

[74] *Id.* at 37.

> optimal figure, but it does mean that it has an aura of reasonableness. The Court is clear that the Commission has wide discretion and there is a range of just and reasonable returns. It also says in FPC v. Natural Gas Pipeline Co. that simply because one ROE is fair does not mean that another figure is unfair. Again, unlike a math problem, we are trying to end up within a zone of reasonableness, not find a unique figure.[75]

Finally, CUB noted that the Commission should be concerned about the ratepayers' ability to pay. CUB argued that in its decision in *FPC v. Hope Natural Gas Co.* the court acknowledged that it consumers are struggling, the Commission can shift some of the burden onto existing shareholders by lowering the ROE.[76]

e. Joint Intervenors – Direct Testimony

The Joint Intervenors do not make a specific ROE recommendation but rather argue that the Commission considers affordability as it determines an appropriate ROE.

The Joint Intervenors argued the "end result doctrine" established in *Federal Power Commission v. Hope Natural Gas Co.*,[77] sets the standard for regulating utility rates to whether it produces "just and reasonable" rates. The doctrine thus affirms the Commission's discretion to weigh statutory principles such as affordability and equity, so long as the overall decision remains just and reasonable. Specifically, the Joint Intervenors stated:

> Legal scholars have noted that Hope narrowed judicial review to outcomes, recognizing the broad authority delegated to commissions to manage risk and balance competing objectives. The "end result doctrine" effectively allows regulators, within statutory bounds, to define the contours of the public interest. Importantly, Hope makes clear that the public interest is not synonymous with least cost. Rather, the public interest is a broader standard. And in Minnesota, state law explicitly requires that utility regulation gives consideration to many social impacts of energy regulation, including encouraging distributed energy resources, energy conservation, reduced fossil fuel usage, increased renewable resources, and affordability. Accordingly, in determining a just and reasonable ROE in this case, the Commission should exercise its discretion to weigh the effect of ROE on residential customer affordability alongside other aspects of the public interest. Under the end result doctrine, the Commission has clear authority to integrate these social policy considerations into its ROE determination, because what matters is

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[75] *Id*. at 43-44.

[76] *Id*. at 42.

[77] *Federal Power Comm'n v. Hope Natural Gas Co*., 320 U.S. 591, 602 (1944) ("It is the result reached, not the method employed, which is controlling … It is not theory, but the impact of the rate order, which counts.").

> that the final outcome best advances the public interest in the delivery of just and reasonable service.[78]

The Commission's ROE determination in this rate case will have a significant impact on energy affordability. The Joint Intervenors noted that in its public response to CUB Information Request 3,[79] Xcel Energy estimated that for each basis point increase in ROE, the test year revenue requirement increased by $973,000. Xcel Energy's requested ROE is 105 basis points greater than its currently authorized ROE, which implies that all else equal, raising the ROE from its current authorized level to the proposed amount would increase Xcel Energy's revenue requirement by over $100 million per year ($973,000 x 105). The Joint Intervenors estimated this would translate to an increase in residential bills of over $35 per year.

Although the Joint Intervenors do not make a specific recommendation for ROE. Instead, it recommended that the Commission give primacy to energy affordability as it considers the arguments of parties, keeping in mind that the "end result doctrine" gives it significant leeway to determine an ROE that meets its definition of the public interest.

f. Walmart – Direct Testimony

Walmart argued that Xcel Energy's requested ROE is excessive, especially when viewed considering the following:

(1) The customer impact of the proposed revenue requirement increases;
(2) The ability of the Company to implement an interim rate increase, as noted above, which will allow the Company to increase rates prior to the full examination of their proposals in this docket;
(3) The inclusion of CWIP in rate base;
(4) The use of a future test year, which reduces regulatory lag by allowing the utility to include the most current information in its rates at the time they will be in effect;
(5) The proposed MYRP, which reduces the review needed to implement rate increase, and the use of capital and expense forecasts for the 2025 and 2026 plan years, which further reduces regulatory lag by allowing rates for those years to more closely reflect the Company's expectations of cost in those years; and,
(6) Recent rate case ROEs approved by this Commission and by other commissions nationwide.[80]

Walmart noted that since 2023, the Commission has issued orders authorizing ROEs in the following three cases, with an average ROE of 9.56 percent:

(1) Minnesota Power's general rate case completed in 2023 in which the Commission awarded an ROE of 9.65 percent;

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[78] Ex. JIN-2 at 42-43 (Chan Direct).

[79] *Id.* at Attachment 4.

[80] Ex. Wal-1 at 8-9 (Austin Direct).

(2) Xcel Energy's last general rate cast completed in 2023 in which the Commission awarded an ROE of 9.25 percent; and
(3) Minnesota Power's general rate case completed in 2024 in which the Commission awarded an ROE of 9.78 percent.

Additionally, Walmart stated that according to data from S&P Global Market Intelligence, a financial news and reporting company, the average of the 104 reported electric utility rate case ROEs authorized by commissions to investor-owned utilities in 2023, 2024 and so far in 2025, is 9.68 percent. The range of reported authorized electric ROEs for the period is 8.63 percent to 11.45 percent, and the median authorized electric ROE is 9.70 percent. As such, the Company's total proposed ROE of 10.30 percent is counter to broader electric industry trends.

Ultimately, Walmart recommended that the Commission should maintain Xcel Energy's currently approved ROE.

g. Xcel Energy – Rebuttal Testimony

In rebuttal, Xcel Energy provided updated analyses, which showed modest upward and downward movement from the results of his Direct Testimony analyses. For example, the Two-Growth DCF analysis showed a rise in the average ROE for the proxy group by four basis points, to 10.38 percent, and the median ROE rose by nine basis points, to 10.52 percent. Xcel Energy argued that given these modest changes, and the fact that Xcel Energy's recommended ROE continued to fall at the low end of the updated range of its analytical results, it continued to recommend an ROE of 10.30 percent.

Table 214: Updated Summary of Common Equity Cost Rates

	Average		Median
Primary Analyses			
Average DCF	10.49%		10.35%
Constant Growth DCF	10.47%		10.32%
Two-Growth DCF	10.38%		10.52%
CAPM	11.21%		11.12%
Risk Premium	10.65%		10.65%
Average	10.79%		10.72%
Benchmark Analyses			
Expected Earnings	11.29%		10.53%

Xcel Energy noted the cost of equity for regulated utility companies is facing upward pressure due to several key factors in the current and prospective capital markets, including the interest rate environment and central bank monetary policy, as well as current inflationary pressure. Specifically, Xcel Energy argued:

> Interest rates, for example, continue to demonstrate an objective measure of a higher cost of capital environment. At the time of the Company's October

> 2021 rate case filing, the average yield on the 30-year Treasury was 2.06 percent. While the average 30-year Treasury yield had risen to 3.87 percent by the time of the Minnesota Public Utilities Commission's (Commission) last decision in June 2023, it has continued to rise. At the time of the Company's rate case filing in November 2024, the average 30-year Treasury yield had further risen to 4.54 percent and has continued to increase to 4.88 percent in August 2025. While there is an expectation for the Federal Reserve to decrease interest rates, consensus projections demonstrate that future reductions in the Fed Funds rate will primarily affect short-term rates, with long-term rates expected to remain near current levels.[81]

Additionally, Xcel Energy argued that the Department and CUB's use of the multi-stage DCF is inappropriate and flawed. Specifically, Xcel Energy stated:

> Witnesses Addonizio and Dr. Kihm rely on analytical results that are more than 100 basis points below any authorized ROE for any vertically integrated electric utility in the decades of available data from Regulatory Research Associates (RRA). Rather than question the reasonableness of the inputs and assumptions of the models, they conclude that the cost of equity is below the current level of authorized ROEs. However, the suggestion that utility commissions have systematically overestimated the cost of equity in setting allowed returns is inconsistent with reasonable market-based models.[82]

Had the Department and CUB used reasonable, market-based models, it would not need to ignore the analytical results of Commission accepted CGDCF and TGDCF models.

i. Response to Department

In rebuttal, Xcel Energy provided a table comparing the results from the various Department analytical models from Xcel Energy's most recent rate case to the Department's direct testimony in this proceeding. Xcel Energy noted that although the various models have increased 33 to 105 basis points since Xcel Energy's last rate case the Department recommended continuation of the current ROE.

Table 215: Department Mean DCF Results

Model	GR-21-630 Department Direct	GR-21-630 Department Surrebuttal	GR-24-320 Department Direct
Constant Growth DCF	9.02%	9.85%	10.90%
Two-Growth DCF	9.06%	9.79%	10.81%
Multi-Stage DCF with 10-year 2nd stage	7.76%	8.41%	8.74%
Multi-Stage DCF with 20-year 2nd stage	7.95%	8.65%	9.20%

[81] Ex. Xcel-25 at 4 (Nowak Rebuttal).

[82] *Id*. at 3.

As for the Department's recommended use of its multi-stage DCF model, Xcel Energy argued that the Department use of the multi-stage DCF is not appropriate for mature companies, such as utilities that are essentially in a steady state growth. Additionally, Xcel Energy argued that there is no reason to expect that an individual corporation competing for capital as a going concern will limit, or have investors expect it to limit, its earnings or dividend growth to GDP. A measure of aggregate economic growth is not reasonable to reflect growth expectations for individual companies.[83] Xcel Energy noted that as an aggregate number, long-term U.S. GDP growth estimates necessarily reflect companies growing both faster and slower than the average. Some companies will fall short of, and others will exceed the growth of the economy for an extended period of time. In addition, long-term U.S. GDP growth projections do not reflect current market conditions that affect earnings growth for individual utilities.[84] All of this makes U.S. GDP growth estimates inappropriate to use as an indicator of investor growth expectations in a utility ROE analysis.

Simple observation of actual utility experience demonstrates that utility growth is not limited by U.S. GDP growth. From 2010 through the end of July 2025, the S&P 500 Utilities Index had a compound annual growth rate (CAGR) of 6.71 percent, when looking at price-only growth (comparable to the analyst growth rates used in a traditional Two-Growth DCF analysis).[85] Xcel Energy argued that the CAGR is much more comparable to the analyst growth rates used in the both Xcel Energy's and the Department Constant Growth and Two-Stage DCF analyses (over 6 percent) than the terminal growth rate of 3.87 percent used by the Department in its Multi-Stage analysis.[86] Moreover, Xcel noted that from 1947 through 2024, the utility sector as a component of GDP grew at a faster compound average annual rate than the overall GDP growth rate, and other sectors of the economy have grown both significantly faster (for example, educational services, health care and social assistance) and significantly slower (for example agriculture, forestry, fishing and hunting) than the overall U.S. GDP growth rate.[87] Xcel Energy concluded that none of this observable data supported the notion that estimates of long-term U.S. GDP growth are reasonable to use in utility ROE analysis.

Xcel Energy noted that the market capitalization of the S&P 500 companies is approximately double that of the U.S. GDP and therefore a company's total value compared to the U.S. GDP is not a meaningful comparison.

Xcel Energy argued that decades of history demonstrate that the utility industry can, and has, grown faster than the U.S. GDP. And analysts that review these trends for investors forecast that this will continue for the foreseeable future.[88] For all these reasons, the Commission

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[83] Ex. Xcel-25 at 24 (Nowak Rebuttal).

[84] *Id*.

[85] *Id*.

[86] *Id*. at 25, 27.

[87] *Id*. at 25-26.

[88] *Id*. at 24-26.

should once again reject use of a Multi-Stage DCF analysis in determining the fair and reasonable ROE.

The Commission has historically and appropriately relied on the Two-Growth DCF model to determine the cost of equity and developed its authorized ROE consistent with that cost of equity. The Commission has not "set allowed ROEs above the cost of equity" in its rate case orders, as stated by the Department. Instead, the Commission has set allowed ROEs consistent with its view of how to best determine the cost of equity.

Xcel Energy concluded that there is ample Commission precedent in support of continued use of the TGDCF model for calculation of reasonable ROE. Xcel Energy set for the following:

> Specifically, the Commission decision noted "The Commission further agrees with the ALJ that the Two-Growth DCF method is the best approach for determining Otter Tail's return on equity in this instance, compared to the Department's multi-stage growth DCF analysis…"[89] Similarly, in NSPM's most recent fully litigated electric case noted:
>
> > The Commission concurs with the ALJ that there is no convincing basis on this record for departing from reliance on the two-growth DCF model.[90]
>
> Minnesota Power's 2023 fully litigated case order concluded:
>
> > For all these reasons, the Commission respectfully declines to adopt the recommendation of the Administrative Law Judge and will instead set the cost of equity, including flotation costs, at 9.65%—twenty-two basis points above the mean of the Company's two-stage DCF analysis, when excluding Pinnacle West, or thirty seven basis points above the mean when including Pinnacle West.[91]
>
> Minnesota Energy Resources Corporation's 2018 fully litigated case also supported the Two-Growth DCF model:
>
> > The Commission finds a 9.70% ROE to be reasonable and appropriate based on the two-growth DCF modeling done by the parties and by Dr. Amit. The value lies virtually at the midpoint of the DCF-based

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[89] Ex. Xcel-25 at 30 (Nowak Rebuttal); *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 34.

[90] Ex. Xcel-25 at 31 (Nowak Rebuttal*); 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 (July 17, 2023), at 89.

[91] Ex. Xcel-25 at 31 (Nowak Rebuttal); *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 (February 28, 2023), at46.

recommendations of the OAG and MERC, and comfortably between the mean growth-rate and high-growth-rate two-growth DCF results calculated by both MERC and the OAG in surrebuttal testimony.[92]

ii. Response to XLI

Like the Department, XLI provided results of three DCF analysis, which included the CGDCF, TGDCF, and the multi-stage DCF approaches. Like its argument concerning the Department's proposal, Xcel Energy argued that the application of a generic GDP long-term growth estimate for the third stage is not appropriate and should not be considered in the Commission's ROE determination.

In addition, Xcel Energy noted that in Xcel Energy's 2021 rate case decision, the Commission found that "over the course of more than 50 years at least seven industries, including utilities, had growth faster than the overall GDP."[93] As such, XLI witness LaConte's multi-stage DCF analysis, which employs the GDP growth rate as the terminal growth, should not be considered in the determination of a fair ROE estimate in this proceeding.

Xcel Energy concluded that XLI's multi-stage and two-stage analyses rely on growth rate assumptions and methodologies that are not reasonable, have been previously dismissed by the Commission, and should therefore not be considered in the Commission's ROE determination.

iii. Response to CUB

Xcel Energy argued that CUB's proposed 9 percent ROE is a departure from the Commission's long-standing precedent and ignores over a century of Court guidance and would transform the process of setting an authorized ROE to a subjective policy debate. Xcel Energy argued that CUB's methodology contained a number of flaws and should be disregarded.[94]

Xcel Energy noted that CUB did not rely on the results of its own analysis. Rather, CUB relied on its view of the application of "gradualism," and recommended lowering Xcel Energy's authorized ROE by 25 basis points to 9.00 percent, 130 basis points above what CUB claims to be Xcel Energy's "cost of equity" but still lower than any authorized ROE for any vertically integrated electric utility in several years.

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[92] Ex. Xcel-25 at 31 (Nowak Rebuttal); *In the Matter of the Application of Minnesota Energy Resources Corporation for Authority to Increase Rates for Natural Gas Service in Minnesota,* Docket No. G-011/GR-17-563, FINDINGS OF FACT, CONCLUSIONS, AND ORDER (December 26, 2018), at 27.

[93] Ex. Xcel-25 at 71 (Nowak Rebuttal*); 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 (July 17, 2023), at 88, 89.

[94] Ex. Xcel-25 at 51-61 (Nowak Rebuttal).

iv. Response to Walmart

Xcel Energy noted that Walmart did not conduct an ROE analysis and did not provide a specific ROE recommendation. Rather, Walmart urged the Commission to consider the impact of the proposed ROE on the Company's revenue requirement and customer rates. In support of its conclusions, Walmart provided data from Regulatory Research Associates on authorized returns for electric utilities in other jurisdictions from 2023-2025.

In response, Xcel Energy argued that returns authorized in 2023 were determined at a time when interest rates were lower than current levels. This includes NSPM's currently authorized ROE. Since August 2022 interest rates have increased considerably. Further, projections suggest that interest rates are expected to remain near current levels and that the capital market conditions are considerably different from the majority of the period Walmart reviewed in its analysis of authorized returns.

h. Department - Surrebuttal Testimony

The Department updated its Multi-Stage, CGDCF and TGDFC models to account for its updated proxy group. The updated DCF results are shown below.[95]

Table 216: Summary of Updated Multi-Stage DCF Results (incl. flotation costs)

	Mean Low ROE	Mean Avg. ROE	Mean High ROE
Multi-Stage DCF with 10-year 2nd stage	7.72%	8.35%	9.30%
Multi-Stage DCF with 20-year 2nd stage	8.11%	8.71%	9.57%

Table 217: Summary of Updated Constant Growth and Two-Growth DCF Results (incl. flotation costs)

	Mean Low ROE	Mean Avg. ROE	Mean High ROE
Constant Growth DCF	10.12%	10.59%	11.06%
Two-Growth DCF	10.22%	10.57%	10.95%

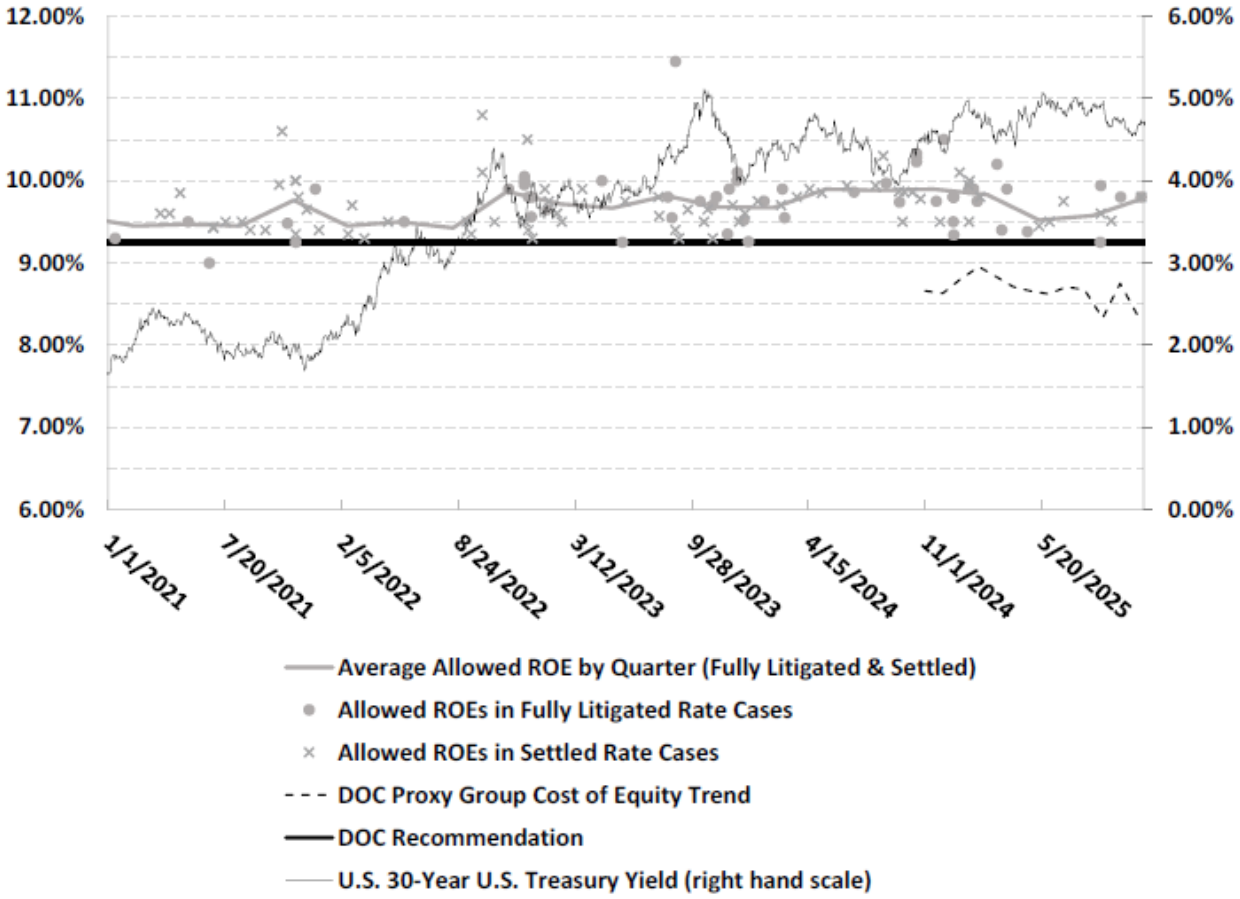
Although the DCF models were updated, the Department maintained its recommended ROE of 9.25 percent.[96] The Department noted that Xcel Energy's cost of equity decreased, and interest rates have "declined moderately" since direct testimony. The Department estimated that Xcel Energy's cost of equity to be in the range of 8.50 - 8.75 percent, and thus an authorized ROE of

[95] Ex. DOC-13 at 4-5 (Addonizio Surrebuttal).

[96] *Id.* at 2, 3, 7, and 43.

9.25 percent is reasonable. The Department included the following figure showing recent authorized ROEs and other indicators.[97]

Figure 201
Recent Authorized ROEs and Other Indicators



The Department noted there have been several rate case decisions (including both fully litigated and settled case) since direct testimony, with the average authorized ROE in those cases being somewhat higher than it was in the quarter immediately prior, although it remains within the range of 9.5-10 percent, as it has for several years.

The Department argued that the changes, considered both individually and collectively, do not clearly indicate that any adjustment up or down to its recommended ROE of 9.25 percent is warranted. Therefore, the Department concluded that an authorized ROE of 9.25 percent will reasonably balance the interests of NSPM's ratepayers and investors as it is lower than the prevailing level of authorized ROEs, but comfortably above reasonable estimates of NSPM's cost of equity.[98]

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97 *Id*. at 7.

98 Ex. DOC-13 at 8 (Addonizio Surrebuttal).

i. XLI - Surrebuttal Testimony

XLI argued that its multi-stage DCF analyses is the most appropriate model to use for calculation of a reasonable ROE. XLI disagreed with Xcel Energy's rebuttal argument that XLI's DCF analyses using the two-stage and multi-stage DCF models are inappropriate because they use projected long-term GDP growth for the second and third stage growth rate estimates. Xcel Energy argued that applying a generic, GDP long-term growth estimate is not appropriate for mature companies that are "essentially in steady state growth." However, XLI countered by noting that the terminal growth rate for a company in steady state growth should not be higher than GDP, otherwise the utility could grow larger than the entire economy. Furthermore, XLI argued that analysts' growth rates for the first stage of the multi-stage DCF analysis may not be sustainable over the long term. Therefore, the GDP growth rate for XLI's two-stage and multi-stage DCF analyses is appropriate.

XLI continued to recommend an overall ROE of 8.96 percent, including a 50-basis point risk adjustment reduction and a 10-basis point reduction due to Xcel Energy's customer service failures.[99]

j. CUB - Surrebuttal Testimony

CUB continued to recommend the Commission authorize an ROE of 9 percent for Xcel Energy noting that their recommendation lies within a range of reasonableness between Xcel Energy's cost of equity of 7.70 percent and historical ROE figures of 9.7 percent.[100]

CUB provided additional discussion between the differences between cost of equity and ROE noting that ROE and cost of equity are distinct variables. In support of its recommendation, CUB pointed to an analysis by the investment advisory service Morningstar which stated:

> Allowed returns on equity [ROEs] for Xcel's 14 state-level rate jurisdictions range from 9.2% to 10% with a 9.5% systemwide weighted average allowed ROE, slightly lower than the average for all US utilities… We use a 7.5% cost of equity in our discounted cash flow valuation.[101]

CUB noted that Morningstar is a well-established investment advisory service, its analysis shows a 200-basis point gap between Xcel Energy's forecasted ROE and its cost of equity. This matches quite closely with CUB's cost of equity estimate of 7.70 percent. CUB argued that Morningstar's analysis makes perfect sense when viewed through a proper financial filter. Noting that "no institutional investor would suggest that utility costs of equity today would be anywhere near authorized ROEs."

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[99] Ex. XLI-7 at 2 (LaConte Surrebuttal). Staff notes that the customer service issues are discussed in the customer O&M section of Vol. 1 of these briefing papers.

[100] Ex. CUB-6 at 8-9 (Kihm Surrebuttal).

[101] Schedule 16 (SK-D-16): Travis Miller, *Xcel Always Working With Regulators to Support Growth Plan*, Morningstar (Feb. 7, 2025).

Further, CUB noted that finance principles say that the ROE and the cost of equity tell us different things. The ROE tells us what the utility earns on its books (directly related to this utility's stock price); the cost of equity tells us what investors give up in the market when they purchase the utility stock (inversely related to this utility's stock price). Since they cause opposite influences on the same stock price, it is conceptually impossible that these two returns measure the same thing.[102]

Finally, CUB argued that the Commission must balance investor vs. ratepayer interests and that Minnesota Statutes provide the Commission with the authority to do so. CUB argued that it is unfair to consumers for utilities to earn returns on equity well in excess of the cost of equity, without a substantial reason supporting those higher returns. However, it is also unfair to existing shareholders to dramatically drop that return precipitously in one proceeding. Therefore, CUB argued its recommendation balances consumer and investor interests applying the pragmatic concepts of balance, gradualism, and fairness.

3. ALJ Report

The ALJ noted that the Commission has traditionally relied on DCF analyses in determining the allowed ROE specifically mentioning the Commission's preference for the Two-Growth DCF method over the past decade.[103]

The ALJ determined that the Commission "should rely primarily on the Two-Growth DCF model when setting Xcel's ROE in this proceeding."[104]

In determining a reasonable ROE, the ALJ acknowledged the concern that the Two-Growth DCF methodology implicitly assumes that Xcel Energy will grow faster than the GDP in perpetuity, thereby eventually outgrowing the entire economy. While the parties dispute the import of this assumption, the ALJ noted that it nevertheless exists and is a weakness in the model.[105] To that end, the ALJ agreed that the Department's Multi-Stage DCF model corrects this weakness by modeling an eventual convergence of Xcel Energy's growth to the long-term GDP growth rate.[106]

The ALJ noted that there are problems with using the long-term GDP as the Department does. Specifically, that from 1947 through 2024, the utility sector as a component of GDP has grown at a faster compound average annual rate than the overall GDP growth rate. Thus, the ALJ concluded that while perpetual growth in excess of the GDP is an unreasonable assumption, the record does show that utilities can grow faster than the GDP for extended periods. Therefore, the record does not support the Department's implicit assumption that convergence to the

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[102] Ex. CUB-6 at 5 (Kihm Surrebuttal).

[103] ALJ Report ¶ 971.

[104] ALJ Report ¶ 973.

[105] ALJ Report ¶ 978.

[106] ALJ Report ¶ 979.

GDP growth rate will occur on the time horizon of 15 to 25 years.[107]

Ultimately, using the Two-Growth DCF analysis in conjunction with the Multi-Stage Analysis the ALJ recommended an ROE of 9.8 percent as a reasonable benchmark.

Specifically, the ALJ stated:

> 992. As discussed in more detail above, the following findings inform the state of the record:
>
> a. Changing market conditions and ROE decisions around the country establish that the Company is entitled to an increase of some kind to its authorized ROE.
>
> b. The Two-Growth DCF analysis presented by the Company is the most reasonable estimate of the Company's ROE in the record. The results of this model imply an ROE of 10.34 percent.
>
> c. The Company's demonstrated ability to access capital with an ROE of 9.25 percent, concerns about analyst bias inflating modeling results, and the Department's independent earnings estimates establish that, while it is the most reasonable analysis in the record, the Two-Growth DCF overstates the appropriate ROE for the Company.
>
> d. It is important to consider multiple models. The Commission should also give some weight to the Department's Multi-Stage DCF analysis, the results of which imply an ROE of 8.71 percent because this model corrects a specifically identified shortcoming of the Two-Growth DCF Model, though the Multi-Stage DCF analysis' own limitations establish that the Multi-Stage DCF analysis understates the appropriate ROE.
>
> e. The Company's and XLI's ROE recommendations rely on a blend of models, including CAPM and Risk Premium, which have doubtful reliability for establishing a reasonable ROE.
>
> f. It is reasonable to include a flotation cost adjustment of eight basis points (which is reflected in the Company's Two-Growth DCF analysis and the Department's Multi-Stage DCF analysis).
>
> 993. Applying these principles, none of the recommendations made by the parties have sufficient support in the record to warrant adoption by the Commission. The Commission should reject these recommendations and instead authorize an ROE of 9.8 percent for the Company.

[107] ALJ Report ¶ 980.

994. An ROE of 9.8 percent would:

a. Represent a 50 basis point increase to the Company's ROE, exceeding the approximately 30 basis point increase in the 18-month trailing average of ROEs between the filing of the Company's most recent rate case and the instant rate case.

b. Exceed the Department's Multi-Stage DCF results, which understates the appropriate ROE, by 109 basis points.

c. Be exceeded by the Company's Two-Growth DCF analysis, which overstates the appropriate ROE, by 54 basis points. This difference also appropriately addresses the Department's concerns about the investment risk stemming from the Company's equity-heavy capital ratio.

d. Be approximately two-thirds of the way between the Department's Multi-Stage DCF analysis and the Company's Two-Growth DCF analysis, appropriately reflecting that the Multi-Stage DCF warrants consideration but that the Two-Growth DCF analysis is the most reasonable analysis in the record.

e. Incorporate an eight basis point flotation cost adjustment.

f. Allow, in light of the Company's demonstrated ability to access capital with a 9.25 percent ROE, the Company an opportunity to earn a fair return on its investments.

g. Be very comparable to the national average authorized ROE for vertically integrated electric utilities of 9.77 percent.

4. Exceptions to ALJ Report

a. Xcel Energy – Exceptions to ALJ Report

Xcel noted that much of the ALJ's ROE discussion and analysis appropriately applied the principles laid out by *Bluefield and Hope*. For example, the ALJ Report reiterated the Commission's finding in Xcel Energy's last rate case that the Two-Growth DCF model "provides a fundamentally sound framework through which to analyze the Company's relative risk in relation to comparable companies, and through which to evaluate the Company's financial integrity and ability to attract investors in light of current as well as expected market conditions."[108] Xcel Energy also agreed with the ALJ Report's refusal to adopt either the Department's or CUB's ROE recommendations.

Xcel Energy, however, took exception to two aspects of the ALJ Report concerning ROE: (1) the Report's Findings concerning an alleged disparity between "authorized ROEs" and a utility's

[108] ALJ Finding ¶ 972.

"cost of equity" and that there "is reason to be concerned that authorized utility ROEs systemically overstate the true cost of equity for rate regulated utilities;" and (2) the Report's recommendation that some weight be given to the Department's Multi-Stage growth DCF analysis. Xcel Energy argued that these Findings, as with the testimony of CUB and Department witnesses, imply that regulatory bodies, including this Commission, have been setting ROEs too high for decades. Notably, neither the ALJ Findings nor the record can explain why commissions would do so, they just declare it is being done. Xcel Energy concluded that the record cannot support such Findings.

i. Alleged disparity between "authorized ROEs" and a utility's "cost of equity"

Xcel Energy argued that the "empirical evidence" that the ALJ relied for his report are based upon third party estimates from financial institutions and broad surveys which are unsupported by the record evidence.

Specifically, Xcel Energy stated:

> For example, it is not clear how the survey respondents derived their inputs, such as the [market risk premium] and risk-free rate, as well as estimates for the market return. Further, it is not apparent for what purpose these responses and estimates were developed (e.g., as individual investors or with return requirements used in their specific line of business). This lack of transparency as to how or why the estimates were developed makes it difficult if not impossible to verify the inputs and assumptions relied upon to derive the cost of equity estimates. The Report omits any reference to this record evidence, and to the fundamental and inherent weaknesses in the other estimates, undermining the ALJ Findings on this matter.[109]

Additionally, Xcel Energy argued the Commission has not set allowed ROEs above the cost of equity in its rate case orders, as alleged by the Department and CUB and suggested by the ALJ Findings. Specifically, Xcel Energy stated:

> Instead, the Commission has set allowed ROEs consistent with its view of how to best determine the cost of equity – through the use of the Two-Growth DCF model, and informed by other industry-standard models such as the CAPM. Sound and reasonable market-based analysis of the cost of equity, as represented by the Two-Growth DCF model, reveals no significant "gap" between a utility's cost of equity and its allowed ROE.

Ultimately, Xcel Energy argued that for the reasons discussed above, the Commission should not adopt Findings 919-927.

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[109] Xcel Energy Exceptions at 7.

ii. ALJ recommendation giving weight to Department's multi-stage DCF analysis

Xcel Energy noted that the ALJ Report relied on two reasons – (1) the implicit assumption that the Company will grow faster than the GDP in perpetuity[110] and (2) concern that analysts growth estimates used in the Two-Stage DCF have an "upward bias."[111] Xcel Energy argued that the record showed that industries such as utilities can grow faster than the GDP for extended periods.[112] As for the alleged "upward bias" to analysts' growth forecasts, Xcel Energy argued that its witness explained that this argument is no longer supported by real world evidence. Specifically, Xcel Energy stated:

> As Mr. Nowak testified, the Global Analysts Research Settlement (the "Global Settlement"), the result of an investigation by multiple financial regulators into alleged conflicts of interest between investment banking and securities research at brokerage firms, comprehensively addressed this concern by requiring financial institutions to insulate investment banking from analysis, prohibiting analysts from participating in "road shows," and requiring the settling financial institutions to fund independent third-party research. Mr. Nowak further explained that Regulation AC, which became effective in April 2003, dictated that analysts must certify that "…the views expressed in the report accurately reflect his or her personal views, and disclose whether or not the analyst received compensation or other payments in connection with his or her specific recommendations or views." Finally, a 2010 article in Financial Analysts Journal found that analyst forecast bias declined significantly or essentially disappeared after the Global Settlement.[113]

In addition to the discussion above, Xcel Energy took exception to the ALJ Findings regarding the Multi-Stage DCF analyses presented in this proceeding. Consistent with its precedent, the Commission should not give weight to these analyses in reaching its decision in this proceeding. Rather, to the extent the Commission looks to other analyses, it should consider the Constant Growth, CAPM, Risk Premium and Expected Earnings analyses presented by the Company, each of which supports the reasonableness of the Company's Two-Growth DCF that the ALJ found to be "the most reasonable estimate of the Company's ROE in the record."

b. Department – Exceptions to ALJ Report

The Department argued that its multi-stage DCF model used reasonable assumptions in its growth rates and that its multi-stage DCF model better estimates the true cost of equity than the two-stage or constant growth variations of the DCF because those models generally use equity analyst growth rates for the long-term, perpetual growth rate that exceed the growth

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110 ALJ Finding ¶ 978.

111 ALJ Finding ¶ 985.

112 ALJ Finding ¶ 980.

113 Xcel Energy Exceptions to ALJ Report at 10.

rate of GDP.

The Department argued that the ALJ erred by (1) finding the Department's multi-stage DCF model overcorrects the two-stage DCF model; and (2) finding that 9.80 percent ROE is commensurate with Xcel Energy's investment risk.

i. Multi-stage DCF model overcorrects the Two-Stage DCF's Flaws is Unsupported.

The Department argued that its recommended ROE of 9.25 percent is analytically sound and well supported in the record. The multi-stage DCF model addresses problems inherent in reliance on analyst forecasts by ensuring that long-term dividend growth does not exceed sustainable economic growth.

Specifically, the Department stated:

> The Department's assumption that no company can logically grow faster than the overall economy indefinitely further strengthens the analysis. This assumption is supported by historical data showing that earnings and dividend growth broadly track GDP over long periods. The Department also updated its analysis in surrebuttal testimony to reflect current financial conditions. That update materially lowered the Department's multi-stage DCF results, demonstrating that the cost of equity has declined since direct testimony. After incorporating flotation-cost adjustments grounded in the Company's own data, the Department's multi-stage DCF results produced a mean cost-of-equity estimate of approximately 8.35%.
>
> The Department, however, did not mechanically recommend that the Commission adopt its 8.35% cost of equity estimate as Xcel's authorized ROE. Instead, the Department applied the pragmatic, whole-record balancing required under Hope and Bluefield, considering allowed ROE trends, independent equity-return estimates, and Xcel's continued strong access to capital markets. Taking these considerations as whole, the Department showed that a 9.25% ROE was warranted despite model results showing a lower cost of equity. These factors establish that the Department's recommended ROE is analytically sound, conservative, and firmly supported by the record. The Commission should adopt it.[114]

In addition, the Department noted that the ALJ cited data showing the utility sector grew faster than GDP from 1947–2024.[115] However, the Department observed that data revealed that while utilities grew at a rate of 6.47 percent per year over that period, GDP grew at a rate 6.38 percent per year—a negligible difference. Further, the Department argued that periods in which any industry outgrows GDP can cause its historical average growth rate to exceed GDP

[114] Department Exceptions to ALJ Report at 40-41.

[115] ALJ Finding ¶ 980.

growth, but do not establish above-GDP growth is sustainable on a going-forward basis.

Additionally, the Department noted that while individual industries or companies may outpace GDP temporarily, such periods cannot persist indefinitely, reinforcing that some convergence must occur well before perpetuity. Thus, the Department's modeled 10-year and 20-year transition period between short-term earnings-derived growth estimates and long-term GDP growth rates provide reasonable sensitivity range for the two book-ended timelines.

The Department concluded that the use of a GDP-based terminal growth rate remains the most reasonable and economically grounded approach.

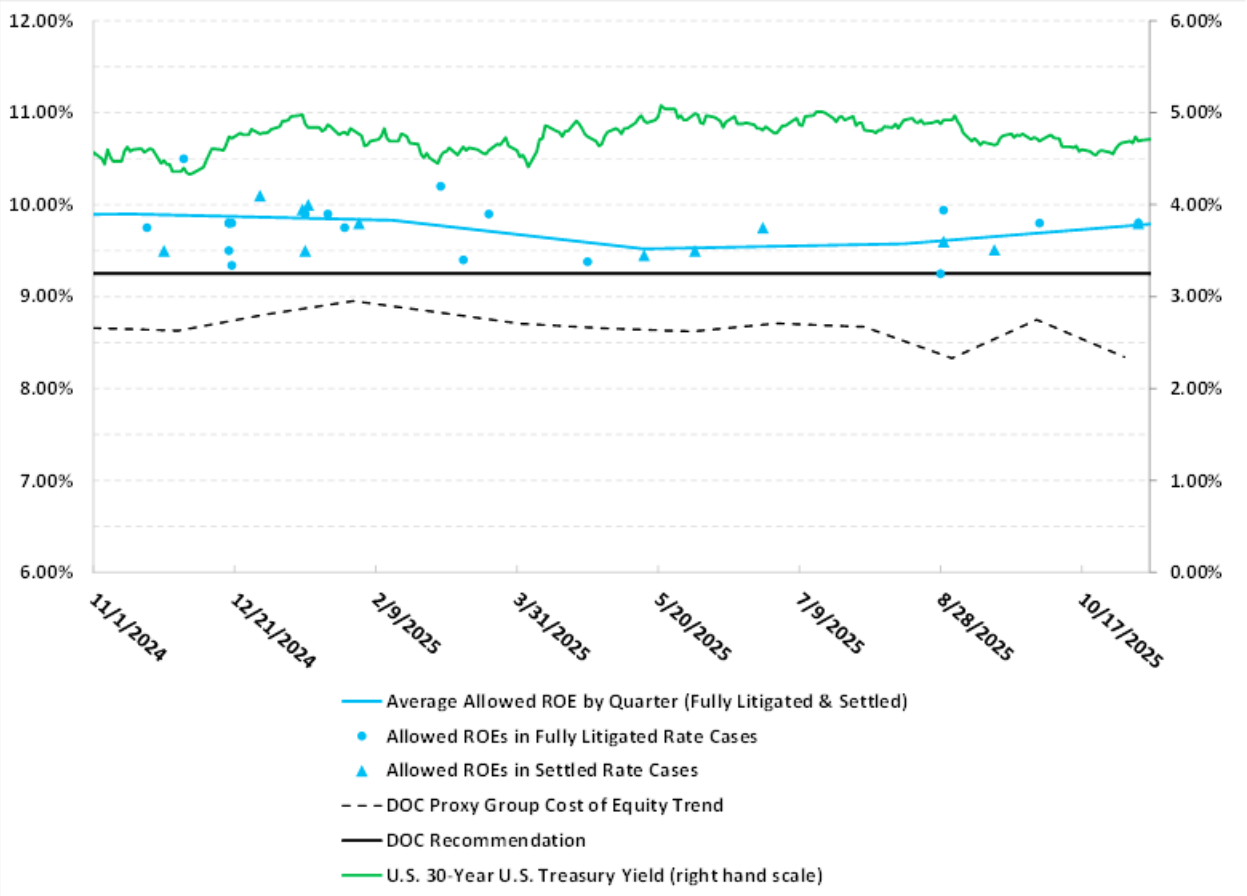
ii. ALJ's Findings Establish That the Recommended ROE Is Not Commensurate with Xcel's Investment Risk.

The Department argued that the ALJ's proposed ROE would give Xcel Energy the highest ROE of any investor-owned utility in the state. Xcel Energy's ROE would be 15 basis points higher than the 9.65 percent ROE that the Commission recently approved for Minnesota Power and 32 basis points higher than the Otter Tail Power's 9.48 percent ROE.[116] The Department recognized that a utility's approved ROE must be based on the specific facts and circumstances of that utility, however, an ROE that is substantially higher than that authorized for smaller and more risky utilities is facially unreasonable.

Additionally, the Department argued that the ALJ's recommended ROE is not justified by a comparison to Xcel Energy's proxy group or Treasury bond yields. As shown in the figure below, a 9.80 percent ROE is considerably higher than cost of equity trend of the Department's proxy group. It also significantly exceeds Treasury bond yields.

[116] Department Exceptions to ALJ Report at 43.

Figure 202: Comparison of ALJ recommended ROE to Department proxy group and Treasury bond yields



The Department concluded that the ALJ's recommended ROE neither matches up with the Commission's decisions for other Minnesota utilities nor current market conditions. Instead, the recommendation gives Xcel Energy a higher return than justified.

iii. Department Recommendations

The Department recommend that the Commission revise paragraphs 971, 973, 979, 982–83, 985–86, 992–94; delete paragraphs 972, 974–75, 980–81; and adopt new paragraphs 976–77 and 980–81 as shown below:

971. The Commission has traditionally relied on DCF analyses in determining the allowed ROE. ~~Specifically, the Commission has long relied on either Constant Growth DCF or Two-Growth DCF models, with consistent preference for the Two-Growth DCF for over the past decade.~~

~~972. The Commission's following finding from Xcel's most recent electric rate case is supported by the record in this proceeding:~~

> ~~The two-growth DCF model provides a fundamentally sound framework through which to analyze the Company's relative risk in relation to comparable companies, and through which to evaluate the Company's~~

~~financial integrity and ability to attract investors in light of current as well as expected market conditions. This model is based on the financial theory that the current price of a stock equals the present value of all expected future dividends in perpetuity discounted by the appropriate cost of equity (i.e., the compensation for the risks associated with owning the stock). It uses growth forecasts to model dividend growth in years one through five, and then applies a different growth rate for years six and beyond, offsetting the limitations of the constant growth model, which assumes dividends are expected to grow at a constant rate over time.~~

~~973. For these reasons~~ For reasons discussed below, the Commission should rely primarily on the Department's multi-stage ~~Two-Growth DCF~~ model when setting Xcel's ROE in this proceeding.

~~974. Because XLI's Two-Growth DCF Model differed from versions of the model previously relied on by the Commission incorporating GDP growth rates, the Commission should rely on the Two-Growth DCF performed by either the Department or the Company.~~

~~975. Ultimately, the results of the Department and Xcel's Two-Growth DCF models were similar, resulting in an average ROE of either 10.57 percent (Department Surrebuttal) or 10.38 percent (Xcel Rebuttal), minimizing the importance of the selection between the two models. As the utility seeking the ROE increase's model is actually the lower of the two, the Commission should accept 10.38 percent as the implied ROE from its preferred Two-Growth DCF model for the purposes of this proceeding.~~

979. The Department's Multi-Stage DCF model corrects this weakness by modeling an eventual convergence of the Company's growth to the long-term GDP growth rate. By anchoring long-term growth to widely accepted GDP forecasts, the Department's model incorporates a sustainable terminal growth rate that reflects basic financial principles and long-run economic behavior. The model also uses observable stock prices, dividends, and short-term analyst growth projections, maintaining the transparency and data-driven structure that the Commission has historically endorsed. These elements collectively provide a coherent framework for estimating the cost of equity using assumptions aligned with empirical evidence and established financial theory.

~~980. To be sure, there are problems with using the long-term GDP as the Department does. From 1947 through 2024, the utility sector as a component of GDP has grown at a faster compound average annual rate than the overall GDP growth rate. Thus, while perpetual growth in excess of the GDP is an unreasonable assumption, the record does not support the Department's implicit assumption that convergence to the GDP growth rate will occur on the time horizon of 15 to 25 years.~~

980. The record also establishes Department's Multi-Stage DCF model does not "overcorrect" the limitations of the two-stage DCF approach. Historical periods in which the utility sector outpaced GDP do not demonstrate that such above-GDP growth is sustainable over the long term, nor do they negate the need for eventual convergence to broader economic growth. The

Department reinforced the reasonableness of its approach by modeling both 10-year and 20-year convergence periods, offering a plausible range for the transition from short-term analyst expectations to long-term economic growth. These convergence periods reflect the reality that individual sectors may grow faster than the overall economy for limited periods, but not indefinitely. The Department also relied on independent, widely accepted GDP forecasts, ensuring that its long-term assumptions were grounded in unbiased projections.

~~981. In other words, while the Multi-Growth DCF analysis rectifies a modeling weakness of the Two-Growth DCF, this record also suggests that the Multi-Growth DCF represents an over-correction. Accordingly, the modeling results in this record suggest that Xcel's ROE should be set in the range of 8.71 percent (Department Surrebuttal Multi-Stage DCF)1059 to 10.34 percent (Company Rebuttal Two-Growth DCF).~~

981. Viewed as a whole, the Department's Multi-Stage DCF model provides a measured and economically grounded correction to the two-stage model's perpetual-growth limitation. By applying sustainable long-term growth assumptions and integrating them with observable market data, the Department's analysis offers a well-supported and analytically consistent basis for estimating Xcel's cost of equity.

~~982. At the time of the Company's last rate case filing in October 2021, the 18-month trailing average authorized ROE for vertically integrated electric utilities was 9.52 percent. By the time of the Initial Filing in the current case, the average authorized ROEs increased by approximately 30 basis points to 9.83 percent and average returns have remained at that level through 2025. This implies that, all else being equal, an increase in the Company's ROE from its current level is appropriate.~~ Between the filing of intervenor direct and surrebuttal testimony, the mean average multi-stage DCF had fallen between 47 and 49 basis points, the mean average constant growth DCF results had fallen by 39 basis points, and the mean average two-growth DCF results had fallen by 31 basis points.

~~983. At the time of the Company's October 2021 rate case filing, the average yield on the 30-year Treasury was 2.06 percent. By the time of the Initial Filing in the current case, the average 30-year Treasury yield had risen to 4.54 percent and continued to increase to 4.88 percent in August 2025. This also implies that, all else being equal, an increase in the Company's ROE from its current level is appropriate.~~ The record shows that several rate case decisions issued between intervenor direct and surrebuttal testimony have authorized ROEs that are slightly higher than those in the immediately preceding quarter but remain within the long-standing range. Considered individually and collectively, these more recent ROE determinations do not suggest that any adjustment to Xcel's existing 9.25 percent ROE is needed. This ROE continues to reasonably balance the interests of Xcel's ratepayers and investors because it remains below prevailing authorized returns while still exceeding reasonable estimates of Xcel's cost of equity.

~~984. These factors establish that the Company is entitled to an increase of some level to its existing 9.25 percent ROE. This reduces the range of supportable ROE figures to 9.25 percent to 10.34 percent.~~

~~985. DCF results based on equity analysts' growth rates are affected by upward bias due to~~

~~structural incentives motivating higher projected growth rates. While a court settlement that became effective in 2003 resulted in short-term reduction in this bias, the upward bias still exists.~~ Moreover, and more significantly, empirical evidence establishes that equity analysts' estimates significantly exceed GDP. As a result, constant-growth and two-stage DCF models overstate the appropriate ROE for Xcel.

986. This upward bias, along with the Department's independent earnings analysis and the Company's demonstrated ability to access capital with its current 9.25 percent ROE, supports a conclusion that ~~even though~~ the ~~Two~~ Multi-Stage Growth DCF is the most reasonable analysis in the record~~, it overstates the appropriate ROE for Xcel~~.

992. As discussed in more detail above, the following findings inform the state of the record:

a. ~~Changing m~~Market conditions and ROE decisions around the country establish that the Company is not entitled to an increase of some kind to its authorized ROE.

b. The ~~Two~~ Multi-Stage Growth DCF analysis presented by the Department ~~Company~~ is the most reasonable estimate of the Company's ROE in the record. The results of this model imply an C~~R~~OE of ~~10~~ 8.35 percent.

c. The Company's demonstrated ability to access capital with an ROE of 9.25 percent, concerns about analyst bias inflating modeling results, concerns that equity analysts' 3-5 year earnings growth forecasts greatly exceed expected long-term GDP growth, and the Department's independent earnings estimates establish that, ~~while it is the most reasonable analysis in the record~~, the Two-Growth DCF overstates the appropriate ROE for the Company.

d. Although it is important to consider multiple models, the Commission should ~~also give some weight to the~~ primarily rely on the Department's Multi-Stage DCF analysis, the results of which imply an C~~R~~OE of 8.~~71~~35 percent because this model corrects a specifically identified shortcoming of the Two-Growth DCF Model, ~~though the Multi-Stage DCF analysis' own limitations establish that the Multi-Stage DCF analysis understates the appropriate ROE.~~

e. The Company's and XLI's ROE recommendations rely on a blend of models, including CAPM and Risk Premium, which have doubtful reliability for establishing a reasonable ROE.

f. It is reasonable to include a flotation cost adjustment of eight basis points (which is reflected in the Company's Two-Growth DCF analysis and the Department's Multi-Stage DCF analysis).

993. Applying these principles, ~~none of the recommendations made by the parties have sufficient support in the record to warrant adoption by the Commission. The~~ the Commission should ~~reject these recommendations~~ adopt the Department's analysis and instead authorize

an ROE of 9.~~8~~ 25 percent for the Company.

994. An ROE of 9.25~~8~~ percent would:[117]

a. Align with the Department's multi-stage DCF results, which estimate Xcel's cost of equity at approximately 8.35% after flotation cost adjustments, and therefore sits comfortably above reasonable cost-of-equity estimates while remaining conservative for ratepayers. ~~Represent a 50 basis point increase to the Company's ROE, exceeding the approximately 30 basis point increase in the 18-month trailing average of ROEs between the filing of the Company's most recent rate case and the instant rate case.~~

b. Reflect the decline in DCF estimates between direct and surrebuttal testimony, indicating a modest decline in the cost of equity since the initial filing and no basis for an upward ROE adjustment. ~~Exceed the Department's Multi-Stage DCF results, which understates the appropriate ROE, by 109 basis points.~~

c. Reasonably reflect current market conditions, including the fact that authorized ROEs nationwide have remained flat for several years, and that recent decisions since direct testimony do not suggest movement away from the current authorized ROE ~~Be exceeded by the Company's Two-Growth DCF analysis, which overstates the appropriate ROE, by 54 basis points. This difference also appropriately addresses the Department's concerns about the investment risk stemming from the Company's equity-heavy capital ratio.~~

d. Remain above long-term, independent cost-of-equity estimates from institutional investors, researchers, and financial firms, virtually all of which fall below both the Company's request and the 9.25% level, providing an external validation that the Department's recommendation is reasonable. ~~Be approximately two-thirds of the way between the Department's Multi-Stage DCF analysis and the Company's Two-Growth DCF analysis, appropriately reflecting that the Multi-Stage DCF warrants consideration but that the Two-Growth DCF analysis is the most reasonable analysis in the record.~~

e. Appropriately account for Xcel's higher-than-average equity ratio, which reduces the Company's financial risk relative to peers and therefore supports a lower cost of equity than would apply to a utility with a more debt-balanced structure. ~~Incorporate an eight basis point flotation cost adjustment.~~

f. Reflect Xcel's demonstrated the ability to raise capital at favorable terms under its current 9.25% ROE; recent bond issuances occurred at interest rates consistent with strong market access, and the Company's credit rating was upgraded following the Commission's prior 9.25% ROE decision, indicating no impairment of capital attraction

[117] Staff corrected an apparent formatting issue with the Department's recommendation. The ALJ report lists sections "a-g" while the Department's recommendation listed sections "g-n". Other than the section letters, staff reproduced the Department's recommendations.

~~Allow, in light of the Company's demonstrated ability to access capital with a 9.25 percent ROE, the Company an opportunity to earn a fair return on its investments~~.

g. Be consistent with the Commission's traditional reliance on DCF-anchored analysis and balances investor and consumer interests consistent with Hope and Bluefield by remaining within the zone of reasonableness while avoiding reliance on growth assumptions found to be unrealistic or unsustainable in the Company's DCF analyses.

h. Avoid formulaic reliance on recent authorized ROEs in other jurisdictions—many of which remain above current cost-of-equity indicators—and instead incorporates a holistic assessment of market data, model results, and capital market access, in line with past Commission guidance ~~very comparable to the national average authorized ROE for vertically integrated electric utilities of 9.77 percent.~~

c. XLI – Exceptions to ALJ Report

XLI argued that applying the proper standard of review to the evidence in the record, the ALJ erred by deriving its ROE recommendation on a narrow set of financial analyses, considering only the formulaic two-growth DCF analyses supported by Xcel Energy and the Department. XLI argued that Xcel Energy did not offer any evidence that the Company's current authorized ROE of 9.25 percent has been insufficient to maintain its credit rating. The failure to account for this and other relevant facts render the ALJ's recommended ROE fundamentally flawed. The evidentiary record demonstrated that XLI's proposed 8.96 percent ROE would strike the appropriate balance and permit Xcel Energy to earn a profit without compromising its financial integrity, while simultaneously ensuring just, reasonable, and affordable rates for customers in accordance with the guiding standards set forth in *Hope* and *Bluefield*.

Additionally, XLI argued that the ALJ erred by rigidly applying a formulaic approach to the ROE recommendation. XLI argued that the record supports its 50-basis point reduction in ROE to account for the Company's reduced risk profile. To justify this reduction, XLI cited the Company's existing decoupling mechanism, the existence of the MYRP, various riders, and the use of interim rates all of which reduce regulatory lag and the Company's financial risk. XLI argued that the Company conceded that the Company's ability to utilize adjustment mechanisms makes it inherently less risky. The Company acknowledged that these regulatory mechanisms make it more resistant to recessionary pressures.[118]

Specifically, XLI argued:

> The ALJ's error on this point is compounded by his review of the record. Despite XLI's evidence that the Company operates with reduced risk due to its plethora of adjustment clauses, its sales true-up, its projected test-year, and the MYRP, the ALJ claims that XLI overstates the Company's reduced risk levels as compared to the proxy group, stating that "of the companies in Xcel's proxy group, 47 percent allow fully- or partially-forecasted test years,

[118] XLI Exceptions to ALJ Report at 16.

> 52 present [sic] have full or partial decoupling mechanisms, and 82 percent have cost recovery mechanisms for capital adjustments." The ALJ Report appears to ignore that of all 58 companies in the proxy group, only seven other companies held the same number of adjustment clauses (6+) as NSP. The fact that other proxy group members allowed "fully- or partially-forecasted test years," "full or partial decoupling mechanisms," and "cost recovery mechanisms for capital adjustments" has no bearing on the impact that the number of adjustment clauses the Company employs has on its risk profile.
>
> Moreover, the Company's briefing papers, and consequently the ALJ Report, focus heavily on the financial component of ROE, as did the Company, overlooking what is adequate to attract capital and sufficient to maintain financial integrity, the first two factors NSP acknowledges must be considered as part of an ROE analysis. Intervenors in this proceeding, including XLI, have presented substantial evidence demonstrating that factors beyond purely financial comparability considerations, like the Company's ability to attract capital and maintain financial integrity, should be included in this analysis.[119]

XLI recommended that the Commission disregard the ALJ's ROE analysis as it does not fully consider the range of factors required by statute, as well as the full scope of the evidentiary record in this proceeding. Contrary to the ALJ Report, insufficient evidence exists to support an ROE of 9.80 percent. Additionally, the ALJ Report does not discuss why a lower ROE would harm the Company or have an adverse impact on its financial integrity. XLI argued that its proposed 8.96 percent ROE would balance Xcel Energy's need to earn a profit and maintain its financial integrity, while safeguarding ratepayers from rate shock and unsustainable rate increases. The evidentiary record demonstrated that Xcel Energy's current ROE sufficiently drives increased earnings for shareholders. Therefore, XLI maintains its recommendation that an 8.96 percent ROE for the Company is just and reasonable.

d. CUB – Exceptions to ALJ Report

CUB took exception to the ALJ's ROE recommendation and argued it was based on an incomplete analysis of the evidentiary record, an inadequate assessment of the applicable legal standard, a misapplication of finance theory, and an inadequate consideration of how the "end result" of his recommendation balances shareholder vs. ratepayer interests.

CUB noted that along with the testimony of the various parties, thousands of Minnesotans filed public comments expressing anger and frustration about paying higher rates to support higher corporate profits for the Company. CUB and other parties introduced substantial evidence showing NSPM's ratepayers are increasingly struggling to afford their electric bills. Despite considerable record support for the Commission holding flat or decreasing NSPM's authorized ROE, the ALJ determined "none of the recommendations made by the parties have sufficient support in the record to warrant adoption by the Commission" and now unilaterally

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[119] XLI Exceptions to ALJ Report at 12.

recommends that the Commission increase NSPM's ROE to 9.8 percent.

i. Legal Standard

CUB noted that the ALJ correctly determined the legal standard applicable to ROE determinations primarily by citing Minn. Stat. § 216B.16, subd. 6, the U.S. Supreme Court's *Bluefield* and *Hope* decisions, and the Minnesota Supreme Court's *Hibbing Taconite Co. decision.*[120] CUB does not dispute the framework laid out by the *Bluefield* and *Hope* decisions. However, CUB noted that key aspects of the *Bluefield*, *Hope* and other precedential decisions are consistently ignored, leaving an incomplete description of the legal standard applicable to ROE determinations. Specifically, CUB stated:

> The Hope and Bluefield decisions do not require ratepayers to write blank checks to support whatever ROE figure is produced by an analytical model that contains no variable accounting for ratepayers' interests. Rather, those decisions articulate parameters that guide the Commission's ratemaking decisions so that shareholders are allowed the opportunity to earn a reasonable return without disregarding ratepayers' protected interest in paying just and reasonable rates. Importantly, the Hope Court upheld a Federal Power Commission order that lowered a utility's return after finding record evidence supported that action. Though that latter aspect of the Hope case is not typically cited in the Commission's orders resolving rate cases, it should not be ignored or forgotten.[121]

CUB noted that throughout its testimony it highlighted language from U.S. Supreme Court decisions (including, but not limited to, *Hope* and *Bluefield*) that added to the legal standard applicable to the Commission's ROE determination in this case. For ease of reference, CUB repeated key language from decisions previously cited on the record, in chronological order of when the cases were decided. CUB noted that most of the quotes and citations were omitted from the ALJ Report and included them so that the Commission would consider the language applicable to ROE determination when issuing a final order in this case.

Table 218: CUB Recommended Key Language

Case Name	Quote
Bluefield	A utility's return should be: (1) "reasonably sufficient to assure confidence in the financial soundness of the utility;" and (2) "adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties." However, an investor-owned utility "has no constitutional right to profits

[120] ALJ Findings ¶¶ 883-890.

[121] CUB Exceptions to ALJ Report at 5.

	such as are realized or anticipated in highly profitable enterprises or speculative ventures."[122]
FPC v. Natural Gas Pipeline Co.	"The requirements of 'just and reasonable' embrace, among other factors, two phases of the public interest: (1) the investor interest; (2) the consumer interest" and that "[t]he consumer interest cannot be disregarded in determining what is a 'just and reasonable' rate." "By long standing usage in the field of rate regulation, the 'lowest reasonable rate' is one which is not confiscatory in the constitutional sense." Ratemaking bodies are "free to fix a rate varying in amount and higher than a confiscatory rate . . . [or] to decrease any rate which is not the 'lowest reasonable rate.'"[123]
Hope	"The rate-making process [...] i.e., the fixing of 'just and reasonable' rates, involves a balancing of the investor and the consumer interests" and "'regulation does not insure that the business shall produce net revenues.'" "The fixing of 'just and reasonable' rates with the powers attendant thereto was the heart of the new regulatory system . . . [whose] provisions were plainly designed to protect the consumer interests against exploitation at the hands of private . . . companies."[124]
Permian Basin Area Rate Cases	"Regulation may, consistently with the United States Constitution, limit stringently the return recovered on investment, for investors' interests provide only one of the variables in the constitutional calculus of reasonableness." A ratemaking body "cannot confine its

[122] Bluefield Co. v. Pub. Serv. Comm., 262 U.S. 679, 693 (1923).

[123] Fed. Power Comm'n v. Natural Gas Pipeline Co., 315 U.S. 575, 585-586; 606-610 (1942).

[124] Fed. Power Comm'n v. Hope Nat. Gas Co., 320 U.S. 591, 603, 611-612 (1944).

	inquiries either to the computation of costs of service or to conjectures about the prospective responses of the capital market; it is instead obligated at each step of its regulatory process to assess the requirements of the broad public interests entrusted to its protection[.]" "Cost and noncost factors do not . . . race one against the other; they must be . . . harnessed side by side. The Commission's responsibilities necessarily oblige it to give continuing attention to values that may be reflected only imperfectly by producers' costs; a regulatory method that excluded as immaterial all but current or projected costs could not properly serve the consumer interests placed under the Commission's protection." Accordingly, "the 'end result' of the [ratemaking body]'s orders must be measured as much by the success with which they protect those interests as by the effectiveness with which they 'maintain . . . credit and . . . attract capital.'"[125]

ii. The ALJ Report omits key factual evidence CUB has introduced into this case.

CUB noted that in its post-hearing briefs it cited evidence—most of which is derived from NSPM's own discovery responses and Securities and Exchange Commission (SEC) reports—to show NSPM has had no trouble attracting capital, maintaining financial integrity and credit worthiness, and competing with its peers since the Commission last issued a final order establishing a 9.25 percent authorized ROE for the Company.

CUB argued that this evidence helps the Commission assess the reasonableness of its ROE decision in NSPM's last electric rate case,[126] which in turn, helps inform its actions in this one. In its last electric rate case, CUB noted that the ALJ recommended the Commission authorize a 9.87 percent ROE, the Commission ultimately approved a 9.25 percent ROE. The Commission explained this position by noting "no party recommended a return higher than 9.25% other than the Company," and that the Commission was "unpersuaded by [NSPM's] claims that a 9.25% return is insufficient to enable the Company to attract capital at reasonable rates,

[125] Permian Basin Area Rate Cases, 390 U.S. 747, 770, 791, 815 (1968).

[126] Docket No. E-002/GR-21-630.

maintain its credit rating and financial integrity, and provide returns commensurate with those earned on other investments with equivalent risk."[127] In other words, the Commission was previously unpersuaded that it must approve an ROE higher than 9.25 percent to meet the *Hope* and *Bluefield* standards. The evidence cited above shows the Commission was right to be skeptical then—and would be right to remain skeptical now—of the assertion that a 9.25 percent return is insufficient to enable the Company to meet the *Hope* and *Bluefield* standards moving forward.

iii. Reliance of other Jurisdictions decisions

CUB argued that proposed Finding 982 continued the erroneous comparison to decision making by outside jurisdictions with no evidentiary support. Setting one utility's authorized ROE based on its comparison to the national average authorized ROE is an overly simplistic method that might have superficial appeal but is not supported. CUB argued that making ROE determinations in this way perpetuates an illogical "circle game," where an increase to one utility's ROE raises the national average, which then justifies increasing another utility's ROE, which again raises the national average, and so on. CUB turned to the following analogy:.

> Consider the following medical analogy. Assume that a U.S. man weighs himself and his scale reads 195 pounds. He finds a chart that shows the average weight for U.S. males of his height and body type is 200 pounds. The man concludes that he is at a healthy weight, or even slightly underweight.
>
> But of course we know this to be an illogical conclusion. Assume that medical researchers have shown that the optimal or healthy weight for a man of his body type is 165 pounds. Rather than being fit, the man in question is 30 pounds overweight. But he cannot determine that by looking at what other men weigh. He must look outside the narrow confines of actual weight comparison to find the scientific answer. To conduct a proper assessment, he needs a different reference variable, not what men actually weigh, but what they should weigh. And certainly no traditionally trained medical professional would tell the man in this analogy he should gain additional weight to be healthy. '
>
> Looking at recently authorized ROEs to determine the reasonableness of an ROE recommendation suffers from the same analytical defect. The analysis is improperly framed. All that approach does is reinforce the status quo even if it represents an undesirable position. That approach encourages groupthink, missing the very essence of what is needed to make a proper evaluation.[128]

CUB recommended the Commission strike Finding 982.

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[127] *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, and Order at 88-92 (July 17, 2023).

[128] Ex. CUB-6 at 3 (Kihm Surrebuttal); CUB Exceptions to ALJ Report at 10.

iv. Reliance of finance models alone does not produce a fair return

CUB takes exception to the ALJ Report's failure to adequately consider non-cost factors in determination of the end result of the ALJ's recommendation.

CUB argued the evidentiary record shows that the consulting firm that Xcel Energy used for its ROE testimony relies on modeling results to always recommend ROEs above 10 percent, regardless of the underlying circumstances.[129] CUB pointed to testimonies of the Department, XLI and its own witness to argue that Xcel Energy's analysis is inconsistent with widely accepted finance principles. Finally, CUB cited to public hearing statement made by Richard Kolkmann, a former Managing Director of Investor Relations who stated that he found Mr. Nowak's analysis to contain "significant inaccuracies and [to be] misleading.[130] CUB argued that the substantial evidence introduced via the testimonies of the Department, CUB, and XLI witnesses (further bolstered by the public comments of Mr. Kolkmann) weighs heavily against finding Xcel Energy's Two-Growth DCF analysis to be "the most reasonable estimate of the Company's ROE in the record."

Rather than accept the ALJ's conclusions and recommendations on ROE, CUB recommended that the Commission directly consider the analyses introduced by multiple, highly experienced finance experts. Also, CUB recommended that the Commission's analysis include consideration of cost and non-cost factors, including the impact any increase to the Company's ROE will have on ratepayers already struggling to afford their utility bills.

v. CUB's Recommended Modifications to ALJ Report

For the reasons discussed above, CUB recommended that the Commission reject in its entirety the ALJ's "ROE: Summary Conclusion, and Recommendation" found on pages 157 – 159 of the ALJ Report.

Also, CUB recommend that the Commission adopt, at minimum, the revisions below, to the ALJ's recommended findings.

CUB NEW 886a. The Court also reiterated that "[t]he rate-making process [...] i.e., the fixing of 'just and reasonable' rates, involves a balancing of the investor and the consumer interests" and that "'regulation does not insure that the business shall produce net revenues." The primary purpose of requiring just and reasonable rates is to "protect consumers against exploitation" at the hands of utilities. The Court also clarified that "under the statutory standard of just and reasonable it is the result reached not the method employed which is controlling."

CUB NEW 886b. In its Federal Power Commission v. Natural Gas Pipeline Co. decision, the Court

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[129] Department Initial Brief at 35; CUB Exceptions to ALJ Report at 10.

[130] Edina 6:00 p.m. Tr. at 20-21 (Sep. 23, 2025) (Richard J. Kolkmann).

said "[t]he requirements of 'just and reasonable' embrace, among other factors, two phases of the public interest: (1) the investor interest; [and] (2) the consumer interest" and that "[t]he consumer interest cannot be disregarded[.]" "By long standing usage in the field of rate regulation, the 'lowest reasonable rate' is one which is not confiscatory in the constitutional sense" and "[i]f the rate permits the company to operate successfully and to attract capital all questions as to 'just and reasonable' are at an end so far as the investor interest is concerned." The Court also clarified that regulators should use their judgment, not just formulas, to set a reasonable return.

CUB NEW 886c. In its Permian Basin Area Rate Cases decision, the Court specified:

> The Commission cannot confine its inquiries either to the computation of costs of service or to conjectures about the prospective responses of the capital market; it is instead obliged at each step of its regulatory process to assess the requirements of the broad public interests entrusted to its protection by Congress. Accordingly, the "end result" of the Commission's orders must be measured as much by the success with which they protect those interests as by the effectiveness with which they "maintain . . . credit and . . . attract capital."

CUB NEW 888a. The U.S. Supreme Court and Minnesota Supreme Court have clearly established that, when establishing a fair return, the Commission must also: (1) balance the interests of a utility and its ratepayers; (2) use its judgment to consider cost and non-cost factors, not all of which are reflected in finance models; and (3) focus on the "end result" of its decision, rather than the methods employed to get there, to determine whether an authorized return is fair and results in just and reasonable rates.

Modified 891. Xcel's most recently approved ROE is 9.25 percent. This ROE was established in a July 17, 2023 Order after a after a fully litigated rate case.

CUB NEW 891a. Xcel acknowledges it "has not experienced difficulties accessing capital markets since its last litigated base rate case." From January 1, 2023 through July 9, 2025, Xcel Energy, Inc. raised $1.48 billion in public securities issuances and $64.18 million in nonpublic securities issuances. Northern States Power Company ("NSPM"), itself, successfully issued $700 million in bonds in February of 2024 and another $1.1 billion in long-term debt in April of 2025.

CUB NEW 891b. The Company has recently been able to attract debt investment at reasonable terms due to its strong credit rating. Fitch Ratings assigned an A+ rating to NSPM's $700 million debt issuance in 2024. Fitch Ratings concluded NSPM's long-term issuer rating remains stable at an A- Rating. And in October 2025, Fitch adjusted Xcel Energy, Inc.'s credit outlook from negative to stable.

CUB NEW 891c. In its 2024 Form 10-K, Xcel Energy, Inc. reported $1.94 billion in net earnings, which is $170 million more than the net earnings it reported in 2023 and $190 million more than the net earnings it reported in 2022. Xcel Energy, Inc. also reports it has been able to meet

or exceed its earnings per share (EPS) guidance every year for the past 22 years, supporting uninterrupted quarterly dividend payments over that time period. Xcel Energy, Inc.'s EPS attributable to NSPM has increased 135% from 2010 to 2024. XEI's stock achieved an all-time record high in October 2024.

~~896. CUB recommended an ROE of 9.0 percent. CUB's recommendation is not derived from a specific model and falls within a range from 7.7 percent to 9.3 percent that CUB's witness believes reflects a reasonable cost of equity for Xcel.~~
CUB NEW 896a. CUB recommends an ROE of 9.0 percent. This is derived from DCF and CAPM model results estimating the Company's cost of equity to be 7.7 percent. After estimating the Company's cost of equity, CUB encouraged the Commission to weigh other record evidence—including evidence of ratepayers' growing affordability challenges—and make pragmatic adjustments to arrive at a rate of return that appropriately balances the competing interests of ratepayers and shareholders.

Modified. 920. According to the Department and CUB, the cost of equity is not synonymous with ROE. The Department and CUB refers to empirical evidence that allowed ROEs typically exceed the cost of equity. Several other independent legal and financial scholars also distinguish a utility's cost of equity and authorized return on equity. Some state utility regulators, too, have recognized this distinction.

CUB NEW 920a. The difference between cost of equity and return on equity is apparent when comparing the book value and market value of the Company's equity. If investors expect a company's return on equity to be roughly equal to its cost of equity, the market and book values of its equity will be roughly equal. However, utility stock often trades at about twice book value. This shows that investors are willing to pay a substantial premium to acquire the stock of utilities that produce high returns.

Modified. 970. ~~Having already determined that the ROE should be set based on consideration of some kind of financial modeling~~, It is necessary to assess which model or models should be relied on and, ultimately, how to use the model or models to determine the appropriate ROE in this proceeding. While models can be helpful in determining the Company's cost of equity, they do not, alone, produce a "fair" return on equity.

Modified. 973. For these reasons, the Commission should rely primarily on the Two-Growth DCF model ~~when setting~~ to determine Xcel's cost of equity ~~ROE~~ in this proceeding.

~~982. At the time of the Company's last rate case filing in October 2021, the 18-month trailing average authorized ROE for vertically integrated electric utilities was 9.52 percent. By the time of the Initial Filing in the current case, the average authorized ROEs increased by approximately 30 basis points to 9.83 percent and average returns have remained at that level through 2025. This implies that, all else being equal, an increase in the Company's ROE from its current level is appropriate.~~

~~984. These factors establish that the Company is entitled to an increase of some level to its~~

~~existing 9.25 percent ROE. This reduces the range of supportable ROE figures to 9.25 percent to 10.34 percent.~~

Modified. 23. Many commenters specifically objected to Xcel citing shareholder profits, ROE, or overall rate of return as a basis for the rate increases. The vast majority of these commenters stated customer rates should not contribute to shareholder profits and found Xcel's focus on the issue inappropriate or concerning. Richard J. Kolkmann, who previously held the role of Managing Director of Investor Relations at Xcel Energy, Inc., believes Xcel's requested ROE to be excessive and explained that he found testimony in favor of the requested ROE to contain "significant inaccuracies" and to be misleading after analyzing the numbers presented.

e. Joint Intervenors – Exceptions to ALJ Report

Joint Intervenors noted that the ALJ failed to mention Joint Intervenors' ROE testimony and position. Although Joint Intervenors did not provide independent modeling, they did recommend that the Commission not approve an ROE higher than Xcel Energy's current 9.25 percent. In making this recommendation, Joint Intervenors emphasized the importance of the "end result doctrine" established in *Federal Power Commission v. Hope Natural Gas Co*. in setting ROE. That is, "the standard for regulating utility rates does not turn on the precise methodology used, but on whether the overall outcome produces 'just and reasonable' rates. In other words, it is the result reached, not the method used, that governs." The doctrine affirms the Commission's discretion to consider social policy considerations such as affordability and equity when setting ROE, so long as the "end result" is just and reasonable.

Based on this end result doctrine, Joint Intervenors continued to recommend that the Commission give primacy to energy affordability as it determines a return on equity that meets its definition of the public interest. The Joint Intervenors concluded that the ALJ Report's analysis and recommendation for an 9.8 percent ROE predominantly rely on comparisons and analysis of the different models and assumptions parties used in making their recommendations. While these data points are important considerations, Joint Intervenors encourage the Commission to focus on the current affordability crisis—as amply demonstrated in this record, including in the volume of public comments protesting a rate increase. On this basis, Joint Intervenors continued to recommend an ROE of no higher than 9.25 percent, Xcel Energy's current ROE, as just, reasonable, and necessary to satisfy the public interest.

5. Staff Comments

The Commission first addressed the use of a Multi-Stage DCF model in Otter Tail Power Company's 2020 rate case,[131] where the Commission ultimately determined that the TGDCF model was the "best approach for determining Otter Tail's return on equity in this instance, compared to the Department's multi-stage growth DCF analysis, . . .[132] The decision in this

[131] Docket No. E-017/GR-20-719.

[132] *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 34 (February 1, 2022).

proceeding, of course, must be made based on the evidence in this record.

The Commission makes its decisions based on a well-developed record with supporting documentation and as the parties point out in testimony the Supreme Court along with Minnesota Statutes make clear that the Commission needs to take the interests of both investors and the community into account when making its decisions. Staff notes that the Commission's ultimate ROE decision in this proceeding will carry over into other proceedings, such as rider filings.

6. Decision Options for Selection of Analytical Models and Growth Rates

Analytical Models

[As long as a final ROE is selected, the Commission may, but does not have to, select one of these options]

2012. Determine that the updated Two-Growth Discounted Cash Flow model combined with the Multi-Stage Discounted Cash Flow model because it corrects a specifically identified shortcoming of the Two-Growth Discounted Cash Flow model produces the most appropriate cost of equity. [ALJ]

2013. Determine that the updated Two-Growth Discounted Cash Flow model, checked for reasonableness, is the most appropriate method for estimating cost of equity. [Xcel Energy]

2014. Determine that the Multi-Stage Discounted Cash Flow model, checked for reasonableness, is the most appropriate method for estimating cost of equity. [Department]

2015. Determine that no single model is the only appropriate method for estimating the cost of equity.

Return on Equity

[The Commission must select one of these options. Option 2021 allows the Commission to select a reasonable ROE that was not specifically recommended by any party]

2016. Establish a 10.30 percent return on equity for setting rates in this proceeding. [Xcel Energy]

2017. Establish a 9.80 percent return on equity for setting rates in this proceeding. [ALJ]

2018. Establish a 9.25 percent return on equity for setting rates in this proceeding. [Department]

If the Commission makes this determination, it may want to adopt one or more of the following recommended by the Department:

a. Department's proposal to modify proposed findings 971, 973, 979, 982–83, 985–86, 992–94.
b. Department's proposal to delete findings 972, 974–75, 980–81.
c. Department's proposal to adopt new paragraphs 976–77 and 980–81.

2019. Establish a 8.96 percent return on equity for setting rates in this proceeding. [XLI]

2020. Establish a 9.00 percent return on equity for setting rates in this proceeding. [CUB]

If the Commission makes this determination, it may want to adopt one or more of the following recommended by CUB:

a. CUB's proposal to modify proposed findings 891, 920, 970, and 973.
b. CUB's proposal to delete findings 896, 982, 984, and 991-994.
c. CUB's proposal to adopt new paragraphs 886a-c, 888a, 891a-c, 896a, and 920a.

2021. Establish a _____ percent return on equity for setting rates in this proceeding.

Department Exceptions to ALJ Report at 38-49
Ex. XLI-1 at 23-28 (LaConte Direct)
Ex. XLI-5 at 4-13 (LaConte Surrebuttal)
XLI Initial Brief at 12-19, 31-33
XLI Reply Brief at 2-10
XLI Exceptions to ALJ Report at 8-15
Ex. CUB-1 at 4-48 (Kihm Direct)
Ex. CUB-6 at 4-12 (Kihm Surrebuttal)
CUB Initial Brief at 14-24
CUB Reply Brief at 8-22
CUB Exceptions to ALJ Report at 3-16

Ex. JIN-2 at 41-47 (Chan Direct)
Joint Intervenors Initial Brief at 31-33
Joint Intervenors Reply Brief at 1-4
Joint Intervenors Exceptions to ALJ Report at 11-12
Ex. Wal-1 at 6-14 (Austin Direct)
Walmart Initial Brief at 6-10

VI. Cost of Long-Term Debt and Capital Structure in Future Rate Cases

1. Introduction

In its testimony, the Department argued that Xcel Energy failed to provide adequate support for its high equity ratio. Rather than establishing that its proposed capital structure minimizes costs, the Department noted that Xcel Energy provided anecdotes of how its existing capital structure – which it proposes to continue – reduced borrowing costs for specific debt issuances. However, in these discussions, Xcel Energy did not address whether the borrowing costs plus the equity costs that it incurred to secure the favorable rate were less than paying more borrowing costs, but less in equity costs. Specifically, Xcel Energy did not address the trade-offs between the uses of debt and equity. Although Xcel Energy did not establish that its proposed capital structure minimizes costs, the Department did not recommend an alternative capital structure. Instead, the Department reasoned that Xcel Energy had used its proposed capital structure for many years, and that the Commission had approved its use dating to 2008. Rather than making an adjustment, the Department concluded that the Commission should instead consider Xcel Energy's high-equity ratio when setting its authorized ROE.

2. Party Positions

a. Department – Direct Testimony

In reviewing Xcel Energy's proposal, the Department concluded that Xcel Energy's capital structure may include a higher-than-optimal level cost of capital. The Department reached this conclusion by comparing Xcel Energy's proposed capital structure with the capital structures of the companies in the Department's proxy group. The Department noted that Xcel Energy's capital structure relied more heavily on equity and less on long-term debt than all 16 other proxy companies.

The Department also expressed concerns that a credit downgrade, due to indirect exposure to its sister and parent companies, for NSPM could result in factors external to Xcel Energy resulting in higher debt costs.

The Department recommended that the Commission, in future rate cases, require Xcel Energy to (1) demonstrate that its proposed capital structure is cost-minimizing or reasonably departs from the least cost capital structure in future rate case proceedings and (2) demonstrate that the costs of each debt issuance made since its prior rate case reasonably reflect the risks of NSPM and are not inflated by risks associated with other entities within Xcel Energy, Inc.'s corporate structure.

b. Xcel Energy – Rebuttal Testimony

Regarding the Department's capital structure recommendation, Xcel Energy argued that the Department incorrectly compared NSPM's proposed capital structure to the proxy companies at the holding company level. Specifically, Xcel Energy stated:

> Since capital at the holding company level may finance a variety of investments, including unregulated operations, comparisons to the holding company capital structure may lead to flawed and misleading conclusions. Since the capital structure information is available for the regulated operating utilities of the proxy companies, it is more appropriate to consider the capital structures of the utility regulated operating companies as the benchmark for the Company's proposal.[133]

Further, Xcel Energy argued that prudent management of its financial leverage and risk profile requires a certain amount of buffer so that it can weather unforeseen events.[134] Xcel Energy argued that there will always be some level of imprecision when managing the capital structure, and the more relevant analysis is not whether a proposed capital structure is "optimal" but if it is reasonable given current market conditions and a utility's long-term capital needs.[135] A utility's financial integrity and its ability to raise capital must be evaluated on a spectrum, not against a theoretical "optimal" standard.[136]

Regarding the Department's cost of debt recommendation, Xcel Energy argued that there is no objectively optimal capital structure, that the company already files information about security issuances, and that the Department's recommendations would rely on too many assumptions and unprovable counterfactuals to be worthwhile.[137]

c. Department – Surrebuttal Testimony

In response to Xcel Energy's criticisms that analysis of NSPM's capital structure was flawed because the Department analyzed the capital structures of the DOC Proxy Group at the holding company level, rather than at the operating subsidiary level; the Department argued that both the Department and Xcel Energy used a proxy screening process "intended to ensure our proxy companies are primarily engaged in regulated electric operations, thus minimizing any such potential differences between NSPM and the proxy holding companies."[138] The Department argued that one reason for the disparate results was that the holding companies engage in double leveraging which results from the holding companies having a different mix of financing

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133 Ex. Xcel-25 at 49 (Nowak Rebuttal).

134 Ex. Xcel-21 at 4 (Wehner Rebuttal).

135 *Id*.

136 *Id*.

137 *Id*. at 5.

138 Ex. DOC-13 at 38 (Addonizio Surrebuttal).

from the utility subsidiaries. Specifically, the Department stated:

> To the extent the large differences between NSPM's capital structure and the capital structures of our proxy holding companies, there are only two possible reasons why. First, it is possible that our proxy screening processes allowed for companies with significant non-utility operations to be included, and the financing of those non-utility operations is very different than that of the utility operations. Second, our proxy holding companies engage in double leverage such that the mix of financing held at the holding companies used to finance the utility subsidiaries is very different (with much more debt) than the mix of financing held at the utility subsidiaries.[139]

Regarding Xcel Energy's response to the Department's cost of debt recommendation, the Department expressed concern regarding Xcel Energy's "complete unwillingness to engage on this issue" and disagreed with Xcel Energy's position that it would be impossible for Xcel Energy impossible for the company to develop an estimate of the cost of a debt issuance that assumes its credit rating was one-notch higher.[140]

Finally, the Department noted that Xcel Energy bears the burden to prove the reasonableness of its proposed rate changes under Minn. Stat. § 216B.16, subd. 4, Xcel should be required to provide information sufficient to show that ratepayers are not compensating the Company's investors for risks that ratepayers have nothing to do with.[141]

d. CUB – Surrebuttal Testimony

In response to Xcel Energy's rebuttal testimony, CUB argued the traditional approach to estimating cost of capital understates the actual cost of capital to ratepayers by ignoring taxes on equity returns.[142] CUB provided the following examples to illustrate its point. Table 219 shows the weighted average cost of capital, determined without the taxes.

Table 219: CUB - Incorrect Analysis (ignores taxes on equity return)

		EQUITY HEAVY				EQUITY LIGHT		
Capital		**Amount (%)**	**Return**	**Weighted Return**		**Amount (%)**	**Return**	**Weighted Return**
Debt		40%	4.0%	1.4%		60%	4.5%	2.7%
Equity		60%	8.0%	4.8%		40%	9.3%	3.7%
WACC				6.4%				6.4%

139 *Id*.

140 *Id.* at 42.

141 *Id*.

142 Ex. CUB-6 at 10 (Kihm Surrebuttal).

In the table above it appears that customers would pay 6.4 percent for capital in either case. However, CUB argued that they will not because it does not consider the fact that equity returns are taxable while debt returns are not. Once the taxes enter the analysis, CUB noted that it is not true that these differing capital structures have the same cost to customers.

CUB recommend the following formula to determine the tax impact of equity on the weighted average cost of capital.

$$WACC_{tax} = \%Debt\ (Return\ on\ Debt) + \%Equity\ (ROE)/\ (1 - tax\ rate)$$

The tax rate adjustment reflects the fact that the customers must pay not only the ROE return but also the taxes on it.

To find the correct answer, CUB argued that one must convert the after-tax ROEs to before-tax figures, which is what the customer pays in rates.

- 8.0% / (1 - 0.25) = 10.7%
- 9.3% / (1 – 0.25) = 12.4%

The revised and effective weighted average cost of capital considering taxes is therefore:

Table 220: CUB - Correct Analysis (includes taxes on equity return)

		EQUITY HEAVY				EQUITY LIGHT		
Capital		**Amount (%)**	**Return**	**Weighted Return**		**Amount (%)**	**Return**	**Weighted Return**
Debt		40%	4.0%	1.4%		60%	4.5%	2.7%
Equity		60%	10.7%	6.4%		40%	12.4%	5.0%
WACCtax				8.0%				7.7%

In the table above, even though the equity heavy-capital structure has a lower cost of debt and a lower cost of equity than does the equity-light capital structure, once adjusted for taxes the equity heavy capital structure still costs customers 30 basis points per year more to support it. And that is 30 basis points on the entire capital base for the company, year after year.

CUB noted that although the figures used above do not specifically apply in this case, the principles do. If Xcel Energy completed a capital structure study, the Commission could better understand some of these numbers. CUB argued that one of the major advantages of such a study would be to start the commission thinking about tax-adjusted weighted average costs of capital, not just simple weighted average costs of capital which would lead to better informed financial decision making.

3. ALJ Report

The ALJ determined that the Department's recommendations are reasonable and

recommended that the Commission require Xcel Energy, in its next rate case, provide the information related to the Company's cost of debt and capital structure requested by the Department. Specifically, the ALJ stated:

> 1205. The Department argued that Xcel did not address whether its proposed capital structure minimizes costs. Instead, the Company offered anecdotal examples of how its existing capital structure reduced borrowing costs for specific debt issuances relative to other utilities. The Department believes this information fails to address the trade-offs between the uses of debt and equity, or whether its proposed capital structure optimizes the total capital cost.
>
> 1206. In reviewing Xcel's proposal, the Department concluded that Xcel's capital structure may include a higher-than-optimal level cost of capital. The Department reached this conclusion by comparing Xcel's proposed capital structure with the capital structures of the companies in the Department's proxy group. Xcel's capital structure relied more heavily on equity and less on long-term debt than all 16 other proxy companies.
>
> 1207. The Department also expressed concerns that a credit downgrade, due to indirect exposure to its sister and parent companies, for NSPM could result in factors external to the Company resulting in higher debt costs.
>
> 1208. The Department recommended that the Commission, in future rate cases, require Xcel to (1) demonstrate that its proposed capital structure is cost-minimizing or reasonably departs from the least cost capital structure in future rate case proceedings and (2) demonstrate that the costs of each debt issuance made since its prior rate case reasonably reflect the risks of NSPM and are not inflated by risks associated with other entities within Xcel Energy, Inc.'s corporate structure.
>
> 1209. The Company opposes the Department's recommendations. Specifically, the Company argues that there is no objectively optimal capital structure, that the company already files information about security issuances, and that the Department's recommendations would rely on too many assumptions and unprovable counterfactuals to be worthwhile.
>
> 1210. The Department responded by arguing that, as the Company bears the burden to prove the reasonableness of its proposed rate changes under Minn. Stat. § 216B.16, subd. 4, Xcel should be required to provide information sufficient to show that ratepayers are not compensating the Company's investors for risks that ratepayers have nothing to do with.
>
> 1211. The Department's recommendations are reasonable. The Company's approved cost of capital affects a substantial amount of money in its rate cases. As Xcel does not issue its own equity, much of the analysis for setting its cost of capital is based on assumptions and modeling. The information the Department seeks is not unique in this respect. And the Department is correct

that Xcel's customers should not pay for risks attributable to the Company's sister and parent companies.

1212. The Commission should order the Company to, in its next rate case, provide the information related to the Company's cost of debt and capital structure requested by the Department.

4. Exceptions to ALJ Report

Xcel Energy filed exceptions and recommended that Findings 1205-1212 not be adopted. Xcel noted the ALJ Report recommended adopting the Department recommendations that the in future rate cases the Commission require the Company to "(1) demonstrate that its proposed capital structure is cost-minimizing or reasonably departs from the least cost capital structure . . . and (2) demonstrate that the costs of each debt issuance made since its prior rate case reasonably reflect the risks of [the Company] and are not inflated by risks associated with other entities within Xcel Energy, Inc.'s corporate structure."[143] Xcel Energy argued that the evidentiary record demonstrated that neither proposed future requirement is well founded and could lead to future rate case filing requirements disputes.

i. Capital Structure Requirement

Xcel Energy argued that neither the ALJ Report nor the Department testimony explains what sort of analysis could be performed to demonstrate the Department's theoretical "cost-minimizing" capital structure. In fact, the Department acknowledged that while the theoretical models could provide a rough estimate of such a hypothetical optimal capital structure, "the models are not easy to implement."

Xcel Energy argued the futility of and quest to determine whether the Company's capital structure is "optimal" or "cost minimizing." Xcel Energy noted that the concept of an "optimal" capital structure implies a single, perfect point that can be achieved and maintained. Xcel Energy further argued that an "optimal" capital structure is a theoretical ideal that does not account for the dynamic and often unpredictable nature of financial markets. Xcel Energy argued the more relevant analysis is not whether a proposed capital structure is "optimal" but if it is reasonable given current market conditions and a utility's long-term capital needs. A utility's financial integrity and its ability to raise capital must be evaluated on a spectrum, not against a theoretical "optimal" or "cost-minimizing" standard.

ii. Cost of Debt Requirement

Xcel Energy argued that the recommendation for a new requirement related to cost of debt issuances is similarly unwarranted and unnecessary. First, Xcel Energy already reports to the Commission within 20 days of each security issuance. Any such report includes an analysis from an underwriting bank detailing the transaction's performance. Second, Xcel Energy argued that the Department's recommendation is unworkable. Xcel Energy noted that credit markets do

[143] ALJ Finding ¶ 1208.

not operate in a vacuum; they evaluate the entire corporate family's financial health and numerous other factors, including prevailing interest rates, investor demand, and the overall economic climate. Additionally, the requirement would force the Company to prove a negative, which is logically impossible. Similar to trying to prove an "optimal" capital structure, requiring the Company to prove that outside factors did not influence its cost of debt is a fruitless errand that would rely on layers of assumptions and unprovable counterfactuals. For all of these reasons, Findings 1205-1212 should not be adopted.

5. Staff Comments

Staff notes that in rate cases the overall approved revenue requirement is grossed up for taxes however, staff does agree that tax implications specifically related to equity returns are not called out.

6. Decision Options for Cost of Long-Term Debt and Capital Structure in Future Rate Cases

2022. Require Xcel Energy to provide a more robust analysis of its proposed capital structure in its next rate case that considers not just the benefits of lower cost of debt, but also the additional equity-related costs associated with achieving that lower cost debt. [ALJ, Department]

2023. Require Xcel Energy to demonstrate that the costs of each debt issuance made since its prior rate case reasonably reflect the risks of NSPM, and are not inflated by risks associated with other entities within Xcel Energy, Inc. corporate structure. [ALJ, Department]

2024. Do not require Xcel Energy to provide additional information on capital structure or cost of debt in its next rate case. [Xcel Energy]

If the Commission makes this determination, it may want to adopt one or more of the following recommended by Xcel Energy:

a. Xcel Energy's proposal to delete proposed findings 1205-1212.

VII. Decision Options

Capital Structure (pg. 5)

2001. Adopt Xcel Energy's proposed capital structure. [ALJ, Department, Xcel Energy]

[If the Commission makes this determination, it may want to adopt the following recommended by Xcel Energy:]

a. Adopt Xcel Energy's proposal to delete proposed findings 989 and 990.

Cost of Debt (pg. 8)

2002. Adopt Xcel Energy's proposed cost of long-term debt. [ALJ, Department, Xcel Energy]

2003. Adopt Xcel Energy's proposed cost of short-term debt. [ALJ, Department, Xcel Energy]

Flotation Cost Adjustment (pg. 11)

[The Commission may select one of these options, but does not need to if a final ROE is selected]

2004. Adopt Xcel Energy's proposed flotation costs of 8 basis points. [ALJ, Department, Xcel Energy]

2005. Deny recovery of flotation costs. [XLI]

Additional Risk Adjustments (pg. 18)

[The Commission may select one of these options, but does not need to as long as a final ROE is selected]

2006. Approve XLI's proposed 50-basis point reduction. [XLI]

2007. Approve XLI's proposed 10-basis point reduction due to failure to provide reliable billing and customer service. [XLI]

2008. Find that no risk adjustment is necessary. [ALJ, Xcel Energy, Department]

Selection of Proxy Groups and Screening Criteria (pg. 24)

[The Commission may select one of these options, but does not need to if a final ROE is selected]

2009. Adopt Xcel Energy's screening criteria and resulting proxy group. [Xcel Energy]

2010 Adopt the Department's screening criteria and resulting proxy group. [Department]

2011 Adopt specific screening criteria and select a proxy group based on those criteria.

Analytical Models (pg. 66)

[As long as a final ROE is selected, the Commission may, but does not have to, select one of these options]

2012. Determine that the updated Two-Growth Discounted Cash Flow model combined with the Multi-Stage Discounted Cash Flow model produces the most appropriate cost of equity because it corrects a specifically identified shortcoming of the Two-Growth Discounted Cash Flow model. [ALJ]

2013. Determine that the updated Two-Growth Discounted Cash Flow model, checked for reasonableness, is the most appropriate method for estimating cost of equity. [Xcel Energy]

2014. Determine that the Multi-Stage Discounted Cash Flow model, checked for reasonableness, is the most appropriate method for estimating cost of equity. [Department]

2015. Determine that no single model is the only appropriate method for estimating the cost of equity.

Return on Equity (pg. 67)

[The Commission must select one of these options. Option 2021 allows the Commission to select a reasonable ROE that was not specifically recommended by any party]

2016. Establish a 10.30 percent return on equity for setting rates in this proceeding. [Xcel Energy]

2017. Establish a 9.80 percent return on equity for setting rates in this proceeding. [ALJ]

2018. Establish a 9.25 percent return on equity for setting rates in this proceeding. [Department]

[If the Commission makes this determination, it may want to adopt one or more of the following recommended by the Department:]

a. Adopt the Department's proposal to modify proposed findings 971, 973, 979, 982–83, 985–86, 992–94.
b. Adopt the Department's proposal to delete findings 972, 974–75, 980–81.
c. Adopt the Department's proposal to adopt new paragraphs 976–77 and 980–81.

2019. Establish an 8.96 percent return on equity for setting rates in this proceeding. [XLI]

2020. Establish a 9.00 percent return on equity for setting rates in this proceeding. [CUB]

[If the Commission makes this determination, it may want to adopt one or more of the following recommended by CUB:]

a. Adopt CUB's proposal to modify proposed findings 891, 920, 970, and 973.
b. Adopt CUB's proposal to delete findings 896, 982, 984, and 991-994.
c. Adopt CUB's proposal to adopt new paragraphs 886a-c, 888a, 891a-c, 896a, and 920a.

2021. Establish a _____ percent return on equity for setting rates in this proceeding.

Cost of Long-Term Debt and Capital Structure in Future Rate Cases (pg. 74-75)

2022. Require Xcel Energy to provide a more robust analysis of its proposed capital structure in its next rate case that considers not just the benefits of lower cost of debt, but also the additional equity-related costs associated with achieving that lower cost debt. [ALJ, Department]

2023. Require Xcel Energy to demonstrate that the costs of each debt issuance made since its prior rate case reasonably reflect the risks of NSPM, and are not inflated by risks associated with other entities within Xcel Energy, Inc. corporate structure.

[ALJ, Department]

2024. Do not require Xcel Energy to provide additional information on capital structure or cost of debt in its next rate case. [Xcel Energy]

[If the Commission makes this determination, it may want to adopt one or more of the following recommended by Xcel Energy:]

a. Adopt Xcel Energy's proposal to delete proposed findings 1205-1212.

Overall Cost of Capital

If the Commission has made specific findings regarding capital and the component costs, it does not need to make a specific finding on the overall cost of capital. However, to avoid possible confusion or questions regarding the Commission's decision, it may want to adopt a specific cost of capital for this proceeding.

Some Commission options regarding the overall cost of capital are:

2025. Adopt the following overall cost of capital of reflecting ALJ's 9.80 percent return on equity for the MYRP. [ALJ]

ALJ	2025			2026		
Type of Capital	Capital Ratio (%)	Cost (%)	Weighted Cost (%)	Capital Ratio (%)	Cost (%)	Weighted Cost (%)
Long-Term Debt	46.71%	4.51%	2.11%	46.50%	4.53%	2.11%
Short-Term Debt	0.79%	5.31%	0.04%	1.00%	3.38%	0.03%
Common Equity	52.50%	9.80%	5.15%	52.50%	9.80%	5.15%
Total	100.00%		7.29%	100.00%		7.29%

2026. Adopt the following overall cost of capital reflecting Xcel Energy's 10.30 percent return on equity for the MYRP. [Xcel Energy]

Xcel Energy	2025			2026		
Type of Capital	Capital Ratio (%)	Cost (%)	Weighted Cost (%)	Capital Ratio (%)	Cost (%)	Weighted Cost (%)
Long-Term Debt	46.71%	4.51%	2.11%	46.50%	4.53%	2.11%
Short-Term Debt	0.79%	5.31%	0.04%	1.00%	3.38%	0.03%
Common Equity	52.50%	10.30%	5.41%	52.50%	10.30%	5.41%
Total	100.00%		7.56%	100.00%		7.55%

2027. Adopt the following overall cost of capital reflecting the Department's 9.25 percent return on equity for the MYRP. [Department]

Department	2025			2026		
Type of Capital	Capital Ratio (%)	Cost (%)	Weighted Cost (%)	Capital Ratio (%)	Cost (%)	Weighted Cost (%)
Long-Term Debt	46.71%	4.51%	2.11%	46.50%	4.53%	2.11%
Short-Term Debt	0.79%	5.31%	0.04%	1.00%	3.38%	0.03%
Common Equity	52.50%	9.25%	4.86%	52.50%	9.25%	4.86%
Total	100.00%		7.00%	100.00%		7.00%

2028. Adopt the following overall cost of capital reflecting CUB's 9.00 percent return on equity for the MYRP. [CUB]

CUB	2025			2026		
Type of Capital	Capital Ratio (%)	Cost (%)	Weighted Cost (%)	Capital Ratio (%)	Cost (%)	Weighted Cost (%)
Long-Term Debt	46.71%	4.51%	2.11%	46.50%	4.53%	2.11%
Short-Term Debt	0.79%	5.31%	0.04%	1.00%	3.38%	0.03%
Common Equity	52.50%	9.00%	4.73%	52.50%	9.00%	4.73%
Total	100.00%		6.87%	100.00%		6.87%

2029. Adopt the following overall cost of capital reflecting XLI's 8.96 percent return on equity for the MYRP. [XLI]

XLI	2025			2026		
Type of Capital	Capital Ratio (%)	Cost (%)	Weighted Cost (%)	Capital Ratio (%)	Cost (%)	Weighted Cost (%)
Long-Term Debt	46.71%	4.51%	2.11%	46.50%	4.53%	2.11%
Short-Term Debt	0.79%	5.31%	0.04%	1.00%	3.38%	0.03%
Common Equity	52.50%	8.96%	4.70%	52.50%	8.96%	4.70%
Total	100.00%		6.85%	100.00%		6.84%

2030. Determine that some other overall cost of capital is appropriate and authorize the Executive Secretary to calculate the proper value, based on the component parts, for inclusion in the order.

2031. Determine that no specific decision on cost of capital is required.

Appendix – Reference to the Record

VIII. Reference to the Record

A. Capital Structure

ALJ Report ¶¶ 247-250, 989-990
Ex. Xcel-20 at 6-11 (Wehner Direct)
Ex. Xcel-21 at 2-6 (Wehner Rebuttal)
Xcel Energy Initial Brief at 19-22, 54-56
Xcel Energy Exceptions to ALJ Report at 81-83
Ex. DOC-12 at 21-32 (Addonizio Direct)
Ex. DOC-13 at 37-41 (Addonizio Surrebuttal)
Department Initial Brief at 12-14

B. Cost of Debt

ALJ Report ¶¶ 251-256
Ex. Xcel-20 at 27-34 (Wehner Direct)
Ex. Xcel-21 at 4-7 (Wehner Rebuttal)
Xcel Energy Initial Brief at 56-57
Ex. DOC-12 at 33-39 (Addonizio Direct)
Ex. DOC-13 at 41-43 (Addonizio Surrebuttal)
Department Initial Brief at 14-16

C. Floatation Cost Adjustment

ALJ Report ¶¶ 966-969, 992
Ex. Xcel-20 at 36-37, Schedule 18 (Wehner Direct)
Ex. Xcel-24 at 60-62 (Nowak Direct)
Ex. Xcel-25 at Schedule 8 (Nowak Rebuttal)
Ex. DOC-12 at 54-57 (Addonizio Direct)
Ex. XLI-1 at 39-42 (LaConte Direct)
XLI Initial Brief at 14

D. Cost of Equity

1. Additional Risk Adjustments

ALJ Report ¶¶ 895, 958-960, 987-988
Ex. Xcel-24 at 53-60 (Nowak Direct)
Ex. Xcel-25 at 78-81 (Nowak Rebuttal)
Ex. Xcel-81 at 6-8 (Howard Rebuttal)
Xcel Energy Initial Brief at 35-38
Ex. XLI-1 at 28-31 (LaConte Direct)
Ex. XLI-7 at 10-12 (LaConte Surrebuttal)

XLI Reply Brief at 9-10

2. Selection of Proxy Groups and Screening Criteria

ALJ Report ¶¶ 898-903
Ex. Xcel-24 at 30-34 (Nowak Direct)
Ex. Xcel-25 at 12 (Nowak Rebuttal)
Xcel Energy Initial Brief at 22-29
Ex. DOC-12 at 14-21, 89-90 (Addonizio Direct)
Ex. DOC-13 at 4 (Addonizio Surrebuttal)
Ex. XLI-1 at 20-22 (LaConte Direct)
Ex. CUB-1 at 10-14 (Kihm Direct)

3. Selection of Analytical Models and Growth Rates

ALJ Report ¶¶ 904-965, 970-994
Ex. Xcel-24 at 34-53 (Nowak Direct)
Ex. Xcel-25 at 18-84 (Nowak Rebuttal)
Xcel Energy Initial Brief at 19-53
Xcel Energy Reply Brief at 20-34
Xcel Energy Exceptions to ALJ Report at 3-13
Ex. DOC-12 at 40-87, 90-99 (Addonizio Direct)
Ex. DOC-13 at 2-37 (Addonizio Surrebuttal)
Department Initial Brief at 17-37
Department Reply Brief at 2-8

E. Cost of Long-Term Debt and Capital Structure in Future Rate Cases

ALJ Report at ¶¶ 1205-1212
Ex. Xcel-21 at 2-5 (Wehner Rebuttal)
Ex. Xcel-25 at 48-49 (Nowak Rebuttal)
Xcel Energy Initial Brief at 54-57
Xcel Energy Exceptions to ALJ Report at 81-85
Ex. DOC-12 at 23-38, 100 (Addonizio Direct)
Ex. DOC-13 at 37-42 (Addonizio Surrebuttal)
Ex. CUB-6 at 1-13 (Kihm Surrebuttal)