STATE OF MINNESOTA
BEFORE THE PUBLIC UTILITIES COMMISSION

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John Tuma	Commissioner

In the Matter of Xcel Energy's 2025 Integrated Distribution Plan	DOCKET NO. E-002/M-25-142

REPLY COMMENTS OF THE OFFICE OF THE ATTORNEY GENERAL— RESIDENTIAL UTILITIES DIVISION

The Office of the Attorney General—Residential Utilities Division (OAG) respectfully submits these intervenor reply comments in response to the February 18, 2026 reply comments of Xcel Energy regarding its inaugural proactive-distribution-upgrade proposal. For the reasons explained below, the Commission should not approve Xcel's proposed proactive distribution upgrade (the project) at this time. If the Commission does approve the project, it will need to address the appropriate calculation of cost-share fees, as explained in the OAG's initial comments. Finally, the Commission should set a $15 million cap on proactive upgrade expenditures as recommended by the Department of Commerce.

I. THE COMMISSION SHOULD DEFER A DECISION ON THE PROPOSED PROJECT UNTIL XCEL'S NEXT INTEGRATED DISTRIBUTION PLAN (IDP) PROCEEDING.

In its initial comments, the OAG did not take a position on whether Xcel's proactive upgrade proposal should be approved. Having reviewed the comments of the Minnesota Department of Commerce, Fresh Energy, and the Environmental Law & Policy Center, Vote Solar, and Cooperative Energy Futures (ELPC/VS/CEF), as well as Xcel's reply, the OAG recommends that the Commission not grant its approval at this time but leave Xcel free to renew the proposal in the next IDP.

Each of the non-utility parties commenting on the project recommends against approval in this IDP proceeding.

The Department examined Xcel's system-wide sales forecasts since 2014 and determined that the forecasts have overstated future sales by 5.2 to 12.6 percent in forecast years six through ten.[1] This is the same time horizon Xcel used to identify the need for the project.[2] The Department also found that Xcel's IDP forecasts have significantly overstated peak load in the near term. Specifically, it found that the "low" forecast of aggregate feeder peak load for 2023 and 2024 from Xcel's November 1, 2023 IDP overstated the actual 2023 peak by 6.1 percent and the 2024 peak by 10.1 percent.[3] The Department concludes that Xcel's 2025 IDP forecast most likely overestimates capacity needs in years six to ten.[4] This conclusion is further bolstered by the fact that Xcel's 2025 IDP forecast does not account for the federal government's recission of Inflation Reduction Act (IRA) tax credits, a omission which likely means Xcel's forecast overstates load growth from electric vehicles and space and water heating.[5] For these reasons, the Department does not expect that a need for the project will occur during the six-to-ten-year proactive planning horizon and recommends that the Commission deny approval of the project without prejudice.[6]

Fresh Energy states that the project is a "good example of the types of project that the Company should be considering for the proactive upgrade process."[7] However, Fresh Energy notes that under Xcel's proposed timeline, the project would come into service in 2030, even though the feeder would not exceed its planning load until 2034 under Xcel's "high adoption"

[1] Department Initial Comments at 5 (Jan. 28, 2026).
[2] *Id.*
[3] *Id.* at 6.
[4] *Id.* at 7.
[5] *Id.* at 7–9.
[6] *Id.* at 9.
[7] Fresh Energy Initial Comments at 3–4 (Jan. 28, 2026).

scenario.[8] Fresh Energy therefore questions whether the project needs to be approved in the 2025 IDP proceeding or could instead wait until the 2027 IDP.[9]

ELPC/VS/CEF emphasize that the need for the project depends on three assumptions that tend to overstate forecasted need. First, Xcel relies on its highest load-growth forecast to support the need for the project.[10] Second, the need is triggered by a 75 percent planned loading limit for the feeder.[11] In other words, even under Xcel's most aggressive load forecast, the feeder would not be physically overloaded in 2034; it would only surpass 75 percent of its capacity, leaving a roughly 25 percent contingency buffer. Finally, Xcel forecasts that the feeder will switch from summer peaking to winter peaking in 2031 but fails to address whether this shift could increase the line's rated capacity (since colder winter temperatures disperse more heat, allowing a higher degree of loading without risk of equipment damage).[12] ELPC/VS/CEF conclude that this combination of assumptions—a high forecast scenario, 75 percent loading limit, and a winter peak—means that a decision on the project can safely be deferred until the next IDP.[13]

In reply, Xcel fails to rebut the substantive points made by other commenters. Instead, it argues that the Commission should approve the project as a learning exercise even though it is highly unlikely that the feeder will need additional capacity in 2034.[14]

The record shows that a decision on the project can wait until Xcel's next IDP. While Xcel's desire to gain experience with the proactive-upgrade framework is understandable, putting forward a proposal in this docket has allowed Xcel and stakeholders to gain valuable experience

[8] *Id.* at 2.
[9] *Id.*
[10] ELPC/VS/CEF Initial Comments at 4 (Jan. 28, 2026).
[11] *Id.*
[12] *Id.* at 4–5.
[13] *Id.* at 5.
[14] *See* Xcel Reply Comments at 2 (Feb. 18, 2026).

applying the framework to an actual project. In the next IDP, Xcel may choose to re-propose this same project, perhaps along with additional or alternative proactive projects. Or the passage of time may show that this project is not a good candidate for a proactive upgrade, thus avoiding a costly unused investment. Iterating across multiple IDPs will allow Xcel to fine-tune its proactive forecasting and give all parties a chance to learn about how proactive needs may change over time.

Moreover, the framework itself is still under development through the second phase of the proactive-upgrade workgroup process,[15] and that process will likely be complete in time to inform the evaluation of this project or others in Xcel's next IDP proceeding. Given that the framework is still in flux, it would be beneficial to allow the Phase 2 workgroup process to play out before making the decision to move forward with this or another project.

If the Commission disagrees with the OAG's and other parties' recommendations to defer action on the project, the Commission will also need to address an issue regarding the calculation of a cost-share fee for the project. The OAG raised this issue in its initial comments and responds to Xcel's reply-comment arguments below.

II. UNDER THE CURRENT PROACTIVE-UPGRADE FRAMEWORK, COST-SHARE FEES SHOULD BE CALCULATED USING THE NET PRESENT VALUE OF A PROJECT'S TOTAL LIFETIME REVENUE REQUIREMENTS.

Xcel calculated a cost-share fee of $266 per kilowatt (kW) for the project by dividing its estimated upfront capital cost by its rated capacity.[16] The OAG recommended that the cost-share fee instead be calculated using the net present value of the project's lifetime revenue requirements, which would increase the fee to $348/kW, unless the Commission requires Xcel to apply cost-

[15] *See In the Matter of a Commission Inquiry into a Framework for Proactive Distribution Grid Upgrades and Cost Allocation for Xcel Energy*, Docket No. E-002/CI-24-318, Order Establishing Framework for Proactive Distribution Grid Upgrades at 3, 6 (Sept. 2, 2025) (initiating Phase 2 of workgroup).

[16] Xcel's Proactive Grid Upgrade Proposal at 22 (Oct. 31, 2025).

share fees to rate base in Phase 2.[17] In reply, Xcel argues that it calculated the cost-share fee according to the currently approved proactive-upgrade framework and suggests that the OAG's proposed fee would be a departure from the framework.[18] Xcel is incorrect.

Framework paragraph J.2 states that cost-share fees "shall be the total cost of all approved Proactive Distribution Upgrades divided by the total kWac of capacity added by all approved Proactive Distribution Upgrades."[19] Paragraph J.2 does not direct Xcel to use capital cost in this calculation; it uses the term "total cost." Notably, the framework uses the term "capital cost" in other paragraphs.[20] By not also specifying "capital cost" in paragraph J.2, stakeholders and the Commission left the provision open-ended. For the reasons explained in the OAG's initial comments, the better course of action is to match the calculation of cost-share fees to how the fees are applied to defray the project's costs. Since the framework, as currently approved, says that fees will be applied as an offset to project revenue requirements, not rate base,[21] the most reasonable interpretation at this time is to calculate the cost-share fee using the project's lifetime revenue requirements.

As noted in the OAG's initial comments, the Commission has directed further discussion of cost-share fees in the second phase of the proactive-upgrade workgroup process, which is scheduled to conclude by the end of this year. If the Commission ultimately revises the framework to require that cost-share fees offset rate base, then the method Xcel used to calculate the fee would be reasonable.

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[17] OAG Initial Comments at 2 (Jan. 28, 2026).
[18] *See* Xcel Reply Comments at 3–4.
[19] Docket No. E-002/CI-24-318, Order Establishing Framework for Proactive Distribution Grid Upgrades, attach. ¶ J.2 (Sept. 2, 2025).
[20] *See id.* ¶¶ F.5, G.1.
[21] *Id.* ¶ I.4.

III. THE COMMISSION SHOULD CAP PROACTIVE-UPGRADE CAPITAL EXPENDITURES AT $15 MILLION PER IDP.

The proactive-upgrade framework contemplates that the Commission will, in this proceeding, establish a cap on the proactive upgrade costs that are recoverable from ratepayers.[22] The Department recommends setting a $15 million limit on the amount of proactive-upgrade capital expenditures that can be approved in a single IDP proceeding.[23] In reply, Xcel argues that a $15 million cap is arbitrary and could unintentionally restrict the range of potential upgrades.[24] Xcel instead recommends deferring a decision on the cap or, if the Commission establishes a cap, expressing it as a percentage of Xcel's total five-year capital budget.[25]

The OAG concurs with the Department that the Commission should establish an initial $15 million cap on proactive-upgrade expenditures. The purpose of a cap is not to artificially limit what Xcel can propose but to protect ratepayers from overpaying for speculative projects—and some speculation is inherent in proactive upgrades. Because proactive upgrades, by definition, replace existing infrastructure before the end of its useful life, these upgrades entail additional early-retirement costs not captured in the $15 million cap. A $15 million cap therefore allows a larger impact on ratepayers than the number would suggest.

A $15 million cap should not unduly limit Xcel's options for proactive upgrades in the near term. In its current filing, Xcel has proposed only a single $3.7 million project. Moreover, a $15 million cap would not be set in stone for all time; it could be revisited as load forecasts evolve and new projects are built. The establishment of the cap is simply an opportunity for this Commission

[22] *See id.* ¶ I.5.
[23] Department Initial Comments at 12.
[24] Xcel Reply Comments at 4.
[25] *Id.*

to set a marker for what level of ratepayer exposure to proactive-upgrade costs is reasonable given the novelty of proactive grid planning and its inherent uncertainty.

Finally, the OAG recommends *against* the use of the percentage-of-distribution-budget cap on proactive upgrades that Xcel supports. As detailed in the Department's February 27, 2026 comments on Xcel's IDP, Xcel's distribution budget has grown significantly over the past five years, and Xcel forecasts it to more than double over 2021–2030.[26] Given these ballooning forecasts, a cap expressed as a percentage of distribution budgets is unlikely to meaningfully insulate ratepayers from the risks of Xcel's investments in proactive upgrades.

CONCLUSION

For foregoing reasons, the Commission should not approve Xcel's proposed proactive-distribution-upgrade project at this time. If the Commission approves the project, it should require that the cost-share fee be set at $348 per kilowatt (under the current proactive-upgrade framework) or $266 per kilowatt if the framework is changed to require that cost-share fees offset rate base. Finally, the Commission should set a $15 million cap on the amount of capital expenditures that can be approved in a single IDP proceeding.

[26] Department Initial Comments on IDP at 7–8.

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