STATE OF MINNESOTA
BEFORE THE PUBLIC UTILITIES COMMISSION

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In the Matter of Northern States Power Co.'s, d/b/a Xcel Energy's, Petition for Approval of Large General Time of Day Service Customers and Large Peak Controlled Time of Day Service Tariffs	DOCKET NO. E-002/M-25-289 **REPLY COMMENTS OF THE OFFICE OF THE ATTORNEY GENERAL—RESIDENTIAL UTILITIES DIVISION**

INTRODUCTION

The Office of the Attorney General—Residential Utilities Division (OAG) respectfully submits the following reply comments in response to the Public Utilities Commission's Notice of Extended Comment Period issued on September 19, 2025. The OAG's initial comments raised concerns with Xcel's proposed Incremental Cost Test, including that it lacks transparency, relies on hypothetical projected costs, and does not ensure that all costs attributable to very large customers will be paid by that class or subclass.[1] Several other parties also raised concerns with Xcel's Incremental Cost Test. The OAG offers these reply comments to clarify where we agree with the concerns of other parties, where we disagree, and where we agree about an aspect of the problem but disagree on the solution relating to the proposed Incremental Cost Test and cost allocation. Specifically, while we have many concerns regarding Xcel's proposed Incremental Cost Test, we disagree with several commenters representing data center interests that the Incremental Cost Test would inherently cause cross-subsidization or violate Minnesota law. The

[1] *See* OAG Initial Comments at 15-31.

OAG also disagrees that ratepayers will be adequately protected by using solely traditional cost allocation methods.

REPLY

I. THE OAG AGREES THAT THE INCREMENTAL COST TEST IS FLAWED BUT DOES NOT AGREE THAT IT WOULD CAUSE CROSS-SUBSIDIZATION OR VIOLATE MINNESOTA LAW.

A. The OAG Agrees that the Incremental Cost Test Is Overly Dependent on Opaque Assumptions and Uncertain Cost Forecasts.

In initial comments, the OAG wrote that the Incremental Cost Test proposed by Xcel lacks transparency, is dependent on many opaque assumptions, and cannot reasonably predict costs and revenues 15 years into the future.[2] Several commentors representing data center interests expressed similar critiques. The Data Center Coalition (DCC) observes that "Xcel provides few details about how its proposed incremental cost test would work."[3] Tract notes the lack of transparency in the Incremental Cost Test design, writing that charges can be readily predicted based on Xcel's proposal but that "three of the [Incremental Cost Test] elements—capacity costs, jurisdictional cost allocation, and incremental Midcontinent Independent System Operator costs—lack the same detail required to reasonably predict costs."[4] Google highlights the dependency of the test on Xcel's opaque assumptions and the difficulties of long-range forecasting, writing that "the results of the Incremental Cost Test proposed by Xcel are highly dependent on dozens, if not hundreds, of individual assumptions about future costs and revenues," many of which "are impossible to predict with accuracy fifteen years out into the future."[5]

The fact that parties representing both data centers and residential and small business ratepayers have concerns about the opacity of the Incremental Cost Test and lack of certainty

[2] *See* OAG Initial Comments at 19–23.
[3] DCC Initial Comments at 18.
[4] Tract Initial Comments at 3.
[5] Google Initial Comments at 20.

regarding Xcel's cost forecasts is telling. Xcel must improve the transparency of its Incremental Cost Test, and even with more transparency it will be limited by forecasting constraints on such a long timeline. However, as discussed further below, the OAG disagrees with commenters representing data center interests about how to remedy the issues presented in Xcel's Incremental Cost Test proposal.

B. The OAG Strongly Disagrees with Recommendations to Remove the Incremental Cost Test that Don't Include a Better Mechanism for Very Large Customer Cost Attribution.

While the OAG agrees that the Incremental Cost Test must be more transparent, it strongly disagrees with the recommendations of the DCC[6] and Google[7] to remove the Incremental Cost Test without replacing it with a better mechanism for ensuring that very large customers cover their costs. The DCC recommends instead using "traditional class cost of service studies in rate cases" for cost allocation purposes.[8] Google argues that "cost allocation for the large load subclass should be handled in future general rate cases"[9] using "time-tested regulatory principles."[10] We explain why traditional class cost of service study (CCOSS) allocation is inappropriate below, but we first respond to the reasons why the DCC and Google recommend removing the Incremental Cost Test.

1. The OAG disagrees that the Incremental Cost Test will inherently lead to cross-subsidization from very large customers to other ratepayers.

In its comments, the DCC suggests that any additional revenues required by the Incremental Cost Test would constitute a cross-subsidy to other classes:

> It is appropriate for Xcel to establish rates for the large customer subclass that will allow it to recover its costs of serving the large customer subclass. However, asking

[6] *See* DCC Initial Comments at 8.
[7] *See* Google Initial Comments at 7.
[8] DCC Initial Comments at 8.
[9] Google Initial Comments at 7.
[10] *Id.*at 22.

> each large load customer to provide "additional revenues" through a surcharge – the sole purpose of which is to benefit other customers – is a blatant cross-subsidy. All customers, including large customers, should pay the utility's full cost of serving them. But no customer should be asked to provide the utility with additional revenues that exceed the cost of serving them. To do so would be to violate the prohibition in Minn. Stat. § 216B.07 against a utility charging rates that "subject any person to any unreasonable prejudice or disadvantage."[11]

Based on this excerpt, it appears that the DCC may be unclear about what the "additional revenues" represent. According to Xcel, a surcharge for additional revenues would be required if a very large customer's incremental costs exceeded its revenues.[12] The estimated costs are meant to represent the utility's additional cost of serving the new customer, however imperfectly. The estimated revenues are based on Commercial and Industrial (C&I) Demand class rates, as determined in the last approved rate case. At the time the Incremental Cost Test is conducted, these rates are unlikely to reflect the new customer's costs, unless these costs were included in the last rate case. The DCC appears to be arguing that if incremental costs exceed revenues, and additional revenues are required, that this would be a "blatant cross-subsidy." However, any amount left over when revenues are subtracted from costs represents the very large customer's shortfall in providing revenues to cover its cost of service. In other words, the additional revenues would theoretically prevent a cross-subsidy—from other ratepayers to the very large customer.[13]

Perhaps the DCC is concerned about the cross-subsidy that may arise if revenues were to be greater than costs in the Incremental Cost Test. In this case, only the C&I Demand class would be subsidized, since—according to Xcel's allocation proposal—costs would be allocated to all classes in a CCOSS but the revenue from the very large customer would be allocated to the

[11] DCC Initial Comments at 18.
[12] *See* Petition to Approve Large General Time of Day Service and Large Peak Controlled Time of Service Tariffs at 18 (July 16, 2025) [hereinafter Petition].
[13] As explained in the OAG's Initial Comments, the Incremental Cost Test may not prevent cross-subsidization in reality, if the cost estimates in the test do not align with the actual costs caused by the customer over their contract term.

Demand class.[14] It is not clear that the DCC is worried about this, though, since very large customers would pay the same base revenues with or without the Incremental Cost Test, and the DCC advocates for eliminating the test. That is, this situation would be identical to the remedy that DCC proposes—using CCOSSes in rate cases for cost allocation purposes—but without the Incremental Cost Test.[15]

Beyond these possible points of confusion, the DCC seems to be arguing that it is unjust, and possibly illegal, for customers to pay costs beyond their incremental costs. This is incorrect. Instead, fairness requires that very large customers pay all costs attributable to them. As explained in the OAG's initial comments, other customers pay both their incremental costs and a portion of system fixed costs, and very large customers should be required to pay a fair share of these costs.[16]

Further, applying a consistent cost test to all customers in the subclass treats all subclass customers the same and does not subject any customer to unreasonable prejudice or disadvantage. There are other examples of rates that use cost determinations or tests that are applied based on the customer's specific characteristics. For example, to assess a contribution in aid of construction (CIAC) for an electric service extension, utilities may use customer-specific factors like potential sales. But this does not subject customers seeking to receive service or existing customers to an "unreasonable prejudice or disadvantage"[17] simply because the dollar amount of the CIAC varies with the new customer's specific characteristics. The focus, instead, should be on determining a cost allocation method that is applied consistently to similarly situated customers within a class or subclass.

[14] OAG Initial Comments, Attach. 1 (Xcel Energy Response to OAG IR 003).
[15] DCC Initial Comments at 8.
[16] OAG Initial Comments at 29.
[17] Minn. Stat. § 216B.07.

2. The OAG disagrees that fees supporting low-income conservation and weatherization programs represent a significant cross-subsidy.

The DCC also writes that "[i]t is worth remembering that HF 16 requires a different, specific type of cross-subsidy from large data centers that will benefit low-income customers.[18] As the DCC notes, Minn. Stat. § 216B.72 now requires the Department of Commerce to collect an annual fee from large-scale data centers to support low-income conservation and weatherization programs.[19] But this fee will be partially or fully offset by exemptions for large customer facilities from the Conservation Improvement Program (CIP) rider, authorized in Minn. Stat. § 216B.241.[20] Table 1 shows the fee that will be assessed by data center size, along with avoided CIP charges, assuming a 90 percent load factor and Xcel's proposed CIP adjustment factor for October 2025 through September 2026.[21]

Table 1
Qualified Large Scale Data Center § 216B.72 Fees vs. Avoided CIP Charges

Load Min (MW)	Load Max (MW)	Section 216B.72 Fee ($ million)	Min MWh @ 90% LF	Max MWh @ 90% LF	CIP Min @ $0.001396/kWh ($ million)	CIP Max @ $0.001396/kWh ($ million)
100	250	$2	788,400	1,971,000	$1.10	$2.75
250.001	499.999	$3	1,971,008	3,941,992	$2.75	$5.50
500	749.999	$4	3,942,000	5,912,992	$5.50	$8.25
750	-	$5	5,913,000	-	$8.25	-

[18] DCC Initial Comments at 20.
[19] Minn. Stat. § 216B.72.
[20] Minn. Stat. § 216B.241, subd. 1a. It is also not clear what portion of the very large customer subclass would be required to pay this fee. The definition of "qualified large-scale data center" is based on criteria set out in Minnesota tax law. *See* Minn. Stat. § 216B.02, subd. 12 ("'Qualified large-scale data center' has the meaning given in section 297A.68, subdivision 42, paragraph (e).") The criteria are based on the size of the facility and the cost of construction or refurbishment, not electricity demand or any other criteria likely to be chosen by the Commission for a customer to qualify for the very large customer class or subclass.
[21] Xcel's proposed electric CIP adjustment factor for October 1, 2025 to September 30, 2026 is $0.001396. *See* Docket E,G-002/CIP-23-92, 2024 Status Report and Associated Compliance Filings at 32 (Apr. 1, 2025).

Table 1 shows that data centers are likely to benefit substantially from the CIP rider exemption. Under the current fee structure, all data centers with peak loads over 275 MW, plus those with loads between 182 and 250 MW, stand to save more in CIP exemptions than they pay in the low-income conservation and weatherization fee, assuming a 90 percent load factor. Those with lower peak loads would also offset at least half the fee with the exemption. This analysis undermines the DCC's claim that data centers will substantially subsidize other ratepayers by paying the fee.

3. The OAG disagrees that directly assigning costs to individual very large customers violates Minnesota law or departs from Commission guidance.

Google and the DCC both oppose the Incremental Cost Test on the basis that it would create an individually determined rate for each customer and that doing so contradicts Minnesota law and Commission guidance.[22] Specifically, these parties highlight the language in Minn. Stat. § 216B.1622 directing the Commission to ensure that all costs attributable to very large customers be "assigned to the very large customer class or subclass" and the language in the Commission's Order Point 32 directing Xcel to ensure that all incremental costs attributable to super-large customers be "assigned to the super-large class or sub-class."[23] Google argues that the Legislature and Commission did not contemplate the direct assignment of costs to individual customers in the Incremental Cost Test and doing so would create an individual customer rate.[24] The DCC similarly argues that the Incremental Cost Test's customer-by-customer application goes against the Commission's order and statute's directive that the very large customer class or subclass pay "the full incremental cost of serving them."[25]

[22] *See* Google Initial Comments at 18–19. *See also* DCC Initial Comments at 20.
[23] *See* Google Initial Comments at 19. *See also* DCC Initial Comments at 20.
[24] Google Initial Comments at 19.
[25] DCC Initial Comments at 20.

While costs should be assigned transparently and equitably, the OAG disagrees that directly assigning costs to very large customers—through the Incremental Cost Test or any other mechanism—violates statutory language or departs from Commission guidance. Such direct assignment may in fact be necessary to uphold the mandate that all costs attributable to very large customers are assigned to the very large customer class or subclass. For example, Xcel's proposal includes a provision for directly assigning transmission interconnection costs to each customer.[26] The fact that these costs are not first allocated to the class or subclass does not violate the statute or the Commission's order. Rather, direct assignment prevents cross-subsidization, which aligns with both the statute's plain language and the statute's purpose.

The statute requires the Commission to consider how best to achieve an outcome where "all costs attributable to the utility's very large customers . . . are assigned to the very large customer class or subclass."[27] This directive simply requires that non-very large customers should not bear *any* costs attributable to the very large customer class or subclass. The statute does not comment on how costs may be apportioned within that class or subclass.

As an additional matter, the DCC misreads the statute by claiming that it requires "the [very] large customer class or subclass to pay the full incremental cost of serving them – nothing more nothing less." As discussed in the OAG's initial comments, the statute's use of the phrase "all costs attributable" is distinct from "all incremental costs" or "the full incremental cost."[28] In claiming that the very large customer class or subclass need only pay their "full incremental cost[s] . . . nothing more nothing less,"[29] the DCC seeks to add a word to the statute. Such an addition

[26] Petition at 21.
[27] Minn. Stat. § 216B.1622, subd. 2(1).
[28] *See* OAG Initial Comments at 12–14.
[29] Data Center Coalition Comments at 20.

counters the principle of statutory interpretation that "words or meanings that were intentionally or inadvertently omitted by the Legislature" shall not be inserted into statutes to support a particular interpretation.[30] The Minnesota Supreme Court recently found such a construction impermissible when interpreting the phrase "all records" in the Minnesota Common Interest Ownership Act.[31] The court faulted a party for advancing an interpretation that effectively inserted words into the statute by claiming that the reference to "all records" meant "all such adequate records."[32] The court appropriately deemed this interpretation unreasonable.[33]

Moreover, using class cost of service studies in rate cases alone, the alternative suggested by Google and the DCC, goes against the clear legislative intent shown by creating a specific provision for very large customers. Indeed, if the Legislature believed the status quo would sufficiently protect existing ratepayers from the likely influx of very large load customers, it would not have had cause to enact Minn. Stat. § 216B.1622.[34] Further, Google and DCC recommend allocating costs to the very large customer subclass through a CCOSS in a rate case, but there is no mechanism in Xcel's current proposal for assigning very large customer costs to a very large customer class or subclass. Under the proposal, costs can be either directly assigned to individual customers, as they would be in the Incremental Cost Test, or included with all other system costs and allocated to classes using traditional CCOSS allocation principles. There is no method for identifying costs incurred to serve very large customers and assigning costs to the very large

[30] *See, e.g.*, *Harkins v. Grant Park Ass'n*, 972 N.W.2d 381, 387 (Minn. 2022).
[31] *Id.*
[32] *Id.*
[33] *Id.*
[34] Minn. Stat. § 645.16 (providing that legislative intent may be ascertained by considering factors including "the circumstances under which it was enacted," "the mischief to be remedied," and "the object to be attained").

customer *subclass*, since Xcel proposes combining these customers with all other C&I Demand class customers in future CCOSSes.

Directly assigning costs to very large customers is one method of ensuring that these costs are attributed to the correct class, in accordance with the statute. Because direct assignment is currently the only mechanism in Xcel's proposal for ensuring that very large customers pay "all costs attributable" to them, it is important that this option is not foreclosed based on a misinterpretation of statutory language.

II. THE OAG DISAGREES THAT TRADITIONAL ALLOCATION PRACTICES WILL ENSURE THAT VERY LARGE CUSTOMERS WILL COVER THEIR COSTS.

Google and the DCC both argue that the Incremental Cost Test is unnecessary, on the basis that traditional cost allocation methods used in rate cases will appropriately allocate costs to very large customers.[35] The DCC argues that "a class cost of service study ensures that no class or subclass is subsidizing or being subsidized by the others."[36] Google states that "time-tested regulatory principles and models need not be abandoned in favor of one-off ratemaking"[37] and that "cost allocation for the large load subclass should be handled in future general rate cases."[38]

The OAG believes that Google and DCC are overly sanguine about the ability of traditional cost allocation methods to prevent cost shifting. Data centers are unlike previous electric utility customers in the size and concentration of their loads, and these characteristics lead to enormous potential for cross-subsidization. The rapid increase in demand for electricity paired with supply constraints will lead to significant investments in production plant and possibly higher short-run wholesale electricity prices. Large customers are often characterized mainly as a boon to the

[35] *See* Google Initial Comments at 21. *See also* DCC Initial Comments at 17.
[36] DCC Initial Comments at 21.
[37] Google Initial Comments at 21.
[38] *Id.* at 7.

system, since they help to spread costs more broadly, but the costs incurred to serve data centers could outweigh these benefits. This is the primary reason that traditional CCOSS allocation methods are not appropriate for very large customers. Moreover, the concentration of so much load in individual customers is very risky, as other, captive ratepayers are on the hook if the large customers reduce their load or leave the system.

A. Traditional Class Cost Allocation Cannot Prevent Cost Shifting from Very Large Customers to Other Ratepayers.

In a traditional CCOSS cost allocation, the addition of new, large customers will have two competing effects. First, production and transmission costs[39] will be spread across more load in cost allocation, leading to a smaller share of embedded costs allocated to the non-very-large-customer classes.[40] This can be called the "allocation effect." Second, Xcel will incur costs to serve the very large customers.[41] This is the "incremental cost effect." Whether the net benefit to other customers is positive or negative depends on the relative magnitudes of these two effects.[42]

Figure 1 provides a simple illustration of the allocation effect and the incremental cost effect, using two existing customer classes and one new customer class.

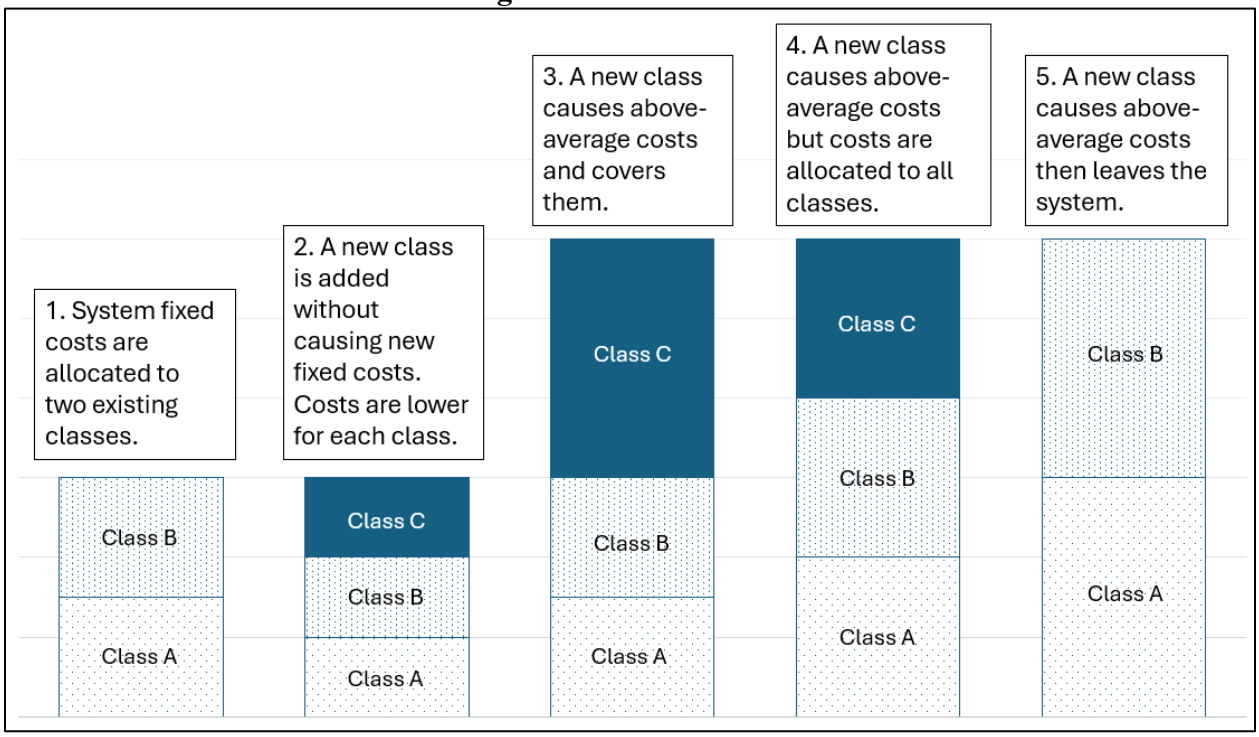
[39] In Xcel's CCOSSes, customers taking service at transmission voltage are not allocated any distribution system costs. Customers taking service at transmission transformed voltage are not allocated distribution system costs except for substation costs.

[40] Xcel plans to include very large customers in the C&I Demand class, so the allocation of costs to this class would increase, but the revenues from very large customers will also be allocated to the C&I Demand class.

[41] "Average cost" in this context serves as shorthand for costs normalized by the appropriate unit used in CCOSS allocation, often load coincident with peak demand (kW) or marginal-cost-weighted energy use (kWh).

[42] Since Xcel plans to include very large customers in the C&I Demand class, the net benefits to other customers in this class will also depend on the revenues contributed by very large customers.

Figure 1
Possible Effects on Existing Customer Classes of a New Customer Class



Scenario 1 shows how fixed costs are allocated to existing Classes A and B before the addition of a new class. This serves as a point of comparison, to demonstrate how costs can change with the addition of new customers. Scenario 2 illustrates the allocation effect of adding Class C, assuming that no new fixed costs are incurred to serve the new class. Because no new costs are added, all classes pay less in Scenario 2. A real-world example of the allocation effect was recently identified in research from the Lawrence Berkeley National Laboratory (LBNL), which reported that increased load was generally correlated with electricity price reductions in U.S. states over the 2019-2024 period.[43]

Scenario 3 depicts a situation in which the new customer class causes higher-than-average costs, but these costs are directly assigned to the new class. In this scenario, the other classes are

[43] Ryan Wiser et al., Factors Influencing Recent Trends in Retail Electricity Prices in the United States, 38 Elec. J. (Dec. 2025) https://www.sciencedirect.com/science/article/pii/S1040619025000612#bib48.

neither harmed nor helped by the addition of the new class. That is, they neither benefit from the allocation effect nor bear the burden the new class's incremental costs. This scenario has historically been difficult to achieve in practice, because it requires precisely determining what share of the utility's additional costs were incurred to serve the new customer class. Attributing new costs to very large customers, however, would be facilitated by the fact that they are projected to comprise a dominant share of Xcel's future load growth.[44]

Scenario 4 illustrates the potential for cross-subsidization using traditional allocation methods. In this scenario, incremental costs to serve the new class are the same as in Scenario 3, but they are allocated across classes based on class contributions to energy use, peak demand, customer counts, and other traditional allocation metrics. In the scenario shown, the incremental cost effect outweighs the allocation effect, and Classes A and B pay more than they did before the new class joined the system. Class C benefits by spreading some of its costs to the other classes.

Scenario 5 illustrates the worst-case scenario, in which substantial fixed costs are incurred to serve Class C, and the new class then leaves the system. In this scenario, the costs allocated to Classes A and B are significantly higher than they were in the first scenario, since these captive ratepayers would be responsible for paying off investments made to serve the new class. The minimum bill and minimum fee provisions included in Xcel's proposal are intended to help reduce this stranded asset risk, though unless the fees cover all costs incurred to serve the new customers, these provisions cannot fully eliminate the risk.

Xcel's current proposal does not adequately protect against the possibility of Scenario 4, in which the incremental cost effect dominates the allocation effect. Xcel has not provided serious

[44] Docket No. E-002/RP-24-67, Upper Midwest Integrated Resource Plan, ch. 1 at 7 (Feb. 1, 2024) [hereinafter 24-67 IRP].

estimates of either the incremental costs required to serve projected data center load or estimates of the class allocation effects of adding such load. Without these estimates, the assertion that data centers will not harm other ratepayers is unsupported. While the LBNL study found evidence of the allocation effect dominating at a national level in recent years, the authors suggested that the rate reductions arose mainly from spreading distribution and transmission expenditures over more demand.[45] Very large customers would not be allocated most distribution costs under Xcel's proposal, since they would take service at transmission or transmission transformed voltages, so they would not provide this benefit to other ratepayers. The study also found that the relationship between increased load and lower prices was "smaller and lost statistical significance when analyzing residential prices."[46] In other words, the load growth benefited large business customers to a much greater degree than residential customers. Costs associated with new generation and purchased power in future periods are also likely to be higher than they were in 2019-2024, due to supply constraints stemming from increased demand.[47] For all these reasons, it is not obvious that other classes will benefit from the addition of very large customers, and without a clearer plan for ensuring that very large customers cover their costs, other classes are at risk of harm.

B. Many Very Large Customer Costs Will Be Allocated Outside of Rate Cases.

Another reason that a CCOSS will not prevent—or even show the extent of—cross-subsidization is because a significant share of large customer costs would likely first appear in riders, under normal ratemaking practices. Xcel stated in its most recent electric Integrated

[45] *See* Wiser et al., *supra*.
[46] *See* Wiser et al., *supra*.
[47] *See, e.g.,* Phil Besunder, The New Reality of Power Generation: An Analysis of Increasing Gas Turbine Costs in the U.S., GridLab (Sept. 2025) (explaining that higher costs of gas combustion turbine and combined cycle gas turbine are likely to persist due to strong demand in rising material and labor costs). *See also* Josh Saul et al., AI Data Centers are Sending Power Bills Soaring, Bloomberg Technology (Sept. 29, 2025) (finding that wholesale prices in areas close to data centers have risen more sharply).

Resource Plan (IRP) that potential data center customers are seeking renewable energy options and provided a "Data Center Load" resource plan with significant wind, solar, and storage resource additions.[48] Hundreds of millions of dollars of renewable plant investments could be initially recovered through the Renewable Energy Standard (RES) Rider, the costs of which are allocated to classes in proportion to their forecasted base revenues.[49] Using a base revenue allocator tends to allocate more costs to the residential and small business classes than the energy and demand allocators used for production plant in Xcel's CCOSSes,[50] but importantly, allocating any such costs to these classes may be inappropriate if new resources are built primarily to serve very large customers.

Similarly, higher costs required to serve very large customers that are recovered through the Fuel Clause Adjustment (FCA) and Transmission Cost Recovery (TCR) Riders would not appear in the CCOSS. Very large customers could cause FCA costs to rise for all customers if tight supply causes fuel costs or the costs of net purchased power or capacity to rise. Likewise, increased costs for transmission projects required to serve data center load could go through the TCR Rider and be allocated using the transmission allocators from Xcel's last rate case.

Since Xcel excludes the costs that have been recovered through these riders from the revenue requirement in a general rate case, a CCOSS could inaccurately indicate that very large customers benefit other ratepayers through the allocation effect, while their incremental costs are separated and dispersed across several riders. Combined with Xcel's plans to include very large

[48] 24-67 IRP, ch. 5 at 42–43.
[49] *See, e.g.*, Docket No. E-002/M-24-353, Renewable Energy Standard Rider Petition at 2 (Oct 23, 2024).
[50] *See, e.g.,* Docket No. E-002/GR-24-320, Barthol Direct Testimony, Schedule 4 at 14 (Nov. 1, 2024) (showing the Base Revenue allocator in Xcel's 2025 Minimum System CCOSS, as well as the D10S and E8760 allocators used to allocate production costs.)

customers in the broader demand class, for allocation purposes, and to treat all resources as system resources,[51] it will be all but impossible to assess whether very large customers are being subsidized by other customers. This is another reason why "traditional ratemaking principles" cannot be relied on to provide equitable outcomes in this case.

C. Costs Incurred to Serve Data Centers May Be Overallocated to Other Ratepayers Due to Regulatory Lag.

Traditional ratemaking practices may not ensure appropriate cost allocation due to the lags between when the incremental costs of serving large customers are incurred and when the benefit of their added load is received by other ratepayers through changes to allocators. If the costs associated with very large customers are included in Xcel's revenue requirement before the customer's full load is included in class allocators, costs will be overallocated to other classes. Such a scenario is possible within a rate case if costs are incurred up front to serve a very large customer but the customer is still in its ramp period. It is also likely in rider cost allocation, unless rider allocation factors are updated more frequently. For example, in Xcel's 2026 TCR Rider petition, the class cost allocators used were established in the Company's 2021 rate case.[52] While using outdated allocators may have little impact when class loads are relatively stable, it could lead to large misallocations in the presence of rapidly growing data center load.

D. Very Large Cutomers Will Pay Less than the Costs Allocated to Them via Traditional Allocation Methods Due to Various Discounts.

While traditional allocation methods are likely to under-attribute costs to very large customers, these customers will likely pay even less than the amounts allocated to them due to the

[51] OAG Initial Comments, Attach. 1 (Xcel Energy Response to OAG IR 003).
[52] *See* Docket No. E-002/M-25-386, Transmission Cost Recovery Rider Petition attach. 7 at 1 n.1 (Oct. 9, 2025) (explaining that the transmission demand, distribution, and sales allocation percentages were established in Xcel Energy's last approved electric rate case, Docket No. E002/GR-21-630).

competitive response rider (CRR), the energy charge credit (ECC), and possibly interruptible load discounts.

Under Xcel's proposed tariffs, very large customers would be eligible for the CRR,[53] which provides a discount on base rates for demand-metered customers that can provide evidence that their service is subject to effective competition.[54] The rate under the rider must recover at least the incremental cost of service, as determined by Xcel's Incremental Cost Test, and the discount cannot exceed the difference between the standard tariff and the customer's lowest-cost alternative.[55] If Xcel's Incremental Cost Test could be trusted to provide a reasonable estimate of the actual additional costs caused by a very large customer, this may be a reasonable standard. But as discussed in the OAG's initial comments, the Incremental Cost Test is opaque, based on conjecture, likely to underestimate actual costs, and lacking an additional contribution to embedded system costs. For very large customers eligible for the CRR, the amount these customers pay would be governed by the Incremental Cost Test, not established rates, and it is unlikely that this amount would cover all costs attributable to these customers.

The cost of the CRR discounts are then allocated to all customer classes based on revenue shares,[56] representing an additional, large subsidy from residential and small business classes to large customers. The amount of the subsidy in any given year is difficult to predict, since it depends on the rates Xcel negotiates with rider-eligible customers, and the total costs of the discounts are designated "highly confidential trade secret" information, so most stakeholders and

[53] *See* Petition at attach. A (Large General Time of Day Service tariff at 5-32.4) *and* attach. B (Large Peak Controlled Time of Day Service tariff at 5-47.6).
[54] Xcel Electric Rate Book at 5-122.
[55] *Id.*
[56] *See, e.g.*, Docket No. E-002/GR-24-320, Barthol Direct Testimony at 10 (Nov. 1, 2024) (stating that economic development discounts were allocated using class shares of base revenue in Xcel's 2024 rate case.)

the public cannot see what these costs are. Further, Xcel allocates these costs according to class revenue shares, on the basis that all classes benefit (in proportion to their revenues) from the addition of large customers. As described above, it is already unclear whether new large customers will provide positive net benefits to other classes. Requiring other customers to foot the bill for additional, secretive costs will only lead to valid complaints that data centers are increasing costs for all ratepayers.

Under Xcel's proposal very large customers will also benefit from the ECC. The ECC is a credit for high-load-factor customers that was developed in 1993, after Xcel began using a method for allocating production plant costs that allocated more costs to classes with higher energy use.[57] For General Service and General Time of Day Service customers, it provides a credit for energy usage beyond the customer's demand multiplied by 400 hours.[58] While very large customers would benefit from this credit, it would not appear on their bill.[59] Rather, Xcel calculates the amount very large customers would pay under the General Time of Day Service rate, which includes about $5.6 million in annual energy charge credits for a customer with 100 MW peak demand and 90 percent load factor, and designs rates for this customer to collect the same amount.[60] While the very large customer's bill does not show an energy charge credit, their rates will reflect the discount. This represents another way in which very large customers would pay less than the costs allocated to them under traditional allocation methods.

Finally, very large customers taking service under the proposed Large Peak Controlled Time of Day Service tariff would receive a discount in exchange for curtailable load.[61] If Xcel

[57] Docket E-002/GR-12-961, Direct Testimony of Steven V. Huso at 13, (Nov. 2, 2012).
[58] Attach. 1 Xcel Energy Response to OAG IR 011.
[59] *Id.*
[60] Petition, attach. I at 2–3.
[61] Petition at 13.

were to effectively use demand response measures to reduce the need for expensive new infrastructure investment, such a discount would likely have significant net benefits. However, it is unclear whether these benefits are likely to be realized. Xcel's most recent IRP discusses the need for additional generation resources to serve data centers, but it does not appear to consider additional demand response as a potential resource.[62] According to discovery obtained in Xcel's most recent rate case, the Company asked customers taking service under the current Peak Controlled Service tariff to curtail load on three dates in 2023 and three dates in 2024, with only one summer date in each year.[63] Since the costs of these discounts are allocated to all classes on the basis of their contributions to peak demand,[64] the discounts will represent subsidies to interruptible customers unless they are used to reduce the need for additional capacity.

CONCLUSION

The OAG hopes that the above reply comments clarify where we agree and disagree with other parties' initial comment regarding Xcel's Incremental Cost Test and cost allocation for very large customers. The OAG looks forward to reviewing other parties' reply comments and offering additional analysis and recommendations in supplemental comments.

[62] 24-67 IRP, ch. 5 at 42–43 (showing that standalone storage, wind, solar, and firm peaking capacity are included in the Company's capacity expansion plan that would accommodate data center load).
[63] Attach. 2 (24-320 Xcel Energy Response to OAG IR 7004).
[64] Attach. 1 (Xcel Energy Response to OAG IR 011).

Dated: November 5, 2025

Respectfully submitted,

KEITH ELLISON
State of Minnesota
Attorney General

/s/ Helen Scharber
HELEN SCHARBER
Financial Analyst

/s/ Katherine Hinderlie
KATHERINE HINDERLIE
Assistant Attorney General
Atty. Reg. No. 0397325

445 Minnesota Street, Suite 600
St. Paul, Minnesota 55101-2125
(651) 757-1468 (Voice)
(651) 296-9663 (Fax)
katherine.hinderlie@ag.state.mn.us

MINNESOTA OFFICE OF THE
ATTORNEY GENERAL—
RESIDENTIAL UTILITIES DIVISION

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Xcel Energy		Information Request No.	11
Docket No.:	E002/M-25-289		
Response To:	Minnesota Office of the Attorney General		
Requestor:	Katherine Hinderlie		
Date Received:	October 15, 2025		

Question:
Reference: Xcel's Petition

A. Provide the estimated annual cost of the energy charge credit (economic development discount) for a LGTODS or LPCTODS customer with 100 MW peak demand and a 90% load factor and explain how this cost will be allocated in a CCOSS.
B. Provide the estimated annual cost of demand and energy charge reductions for a LPCTODS customer with 100 MW peak demand and a 90% load factor and explain how the cost of these reductions will be allocated in a CCOSS.

Response:

A. To clarify, the energy charge credit is not an economic development discount. The energy charge credit is a term of the General Service (A14) and General Time of Day Service. It provides a credit to customer usage greater than the customers demand multiplied by 400 hours. This compensates customers with high load factors for higher than average energy charge revenue contributions due to the Company's stratification method of classifying a portion of fixed production costs as energy related. However, since the Company has eliminated the stratification step in the proposed rate design for LGTODS and LPCTODS customers the production costs and production O&M costs are classified entirely as demand related costs. Therefore, the energy charge credit is not necessary in the LGTODS and LPCTODS and was eliminated from the tariff.
B. The Company has proposed the same rate discount terms for LPCTODS that are available to existing Peak Controlled Service and Peak Controlled Time of Day Service customers. The LPCTODS discount amount depends on the tier of interruption level selected by the customer and the customer's performance factor. The estimated annual cost of demand and energy charge reductions will be allocated using the D10S allocator which is derived from the class loads coincident with the MISO system peak.

Preparer:	Christopher Barthol	Nick Paluck
Title:	Rate Consultant	Manager, Regulatory Analysis
Department:	NSPM Regulatory	NSPM Regulatory
Telephone:	612-321-3237	612-330-2905
Date:	October 27, 2025	

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Xcel Energy		Information Request No.	7004
Docket No.:	E002/GR-24-320		
Response To:	Minnesota Office of the Attorney General		
Requestor:	Peter Scholtz		
Date Received:	June 18, 2025		

Question:

Reference: Vol 2E, Proposed Tariff, Section No. 5, 25th Revised Sheet No. 40, Peak Controlled Service

"Available to any non-residential customer for general service who agrees to control demand to a predetermined level whenever required by Company and where customer is not required to be on a time-of-day rate schedule."

A. Explain how Xcel determines if a customer taking service under the Peak Controlled Service Tariff is a Tier 1 or Tier 2 customer.
B. Can Xcel interrupt customers that take service under the Peak Controlled Service tariff?
C. List the number of customers that take service under Peak Controlled Tier 1 tariff.
D. List the number of customers that take service under Peak Controlled Tier 2 tariff.
E. From 2021-2024 list each date where Xcel required its Peak Controlled Service customers to control their demand.

Response:

A. Xcel Energy determines whether a commercial customer is Tier 1 and Tier 2 according to the elections the customer made when signing up for or adjusting their Peak Controlled Service. These elections include notification times, curtailment amounts (kW), annual controllable hours, contractual length, and buy-though options for economic curtailments.
B. Yes.
C. The number of customers that take service under the Peak Control Tier 1 tariff is always changing as customers enroll or unenroll in the tariff, but as of June, 2025, 172 customers in Minnesota took service under the Peak Control Tier 1 tariff.
D. The number of customers who take service under the Peak Control Tier 2 tariff is always changing because customers enroll or unenroll in the tariff, but as of June, 2025, 1,925 customers in Minnesota took service under the Peak Control Tier 2 tariff.
E. Please see the table below:

2021	2022	2023	2024
06/10/2021	12/23/2022	08/24/2023	08/01/2024
05/25/2021	08/11/2022	05/24/2023	04/29/2024
05/13/2021	05/25/2022	04/04/2023	04/04/2024
04/29/2021	05/19/2022		
	04/27/2022		
	04/05/2022		

Preparer: Ryan Bruers
Title: Mgr, Business Solutions & Results
Department: Demand Management Product Mgmt
Telephone: (612) 321-3186

Date: July 1, 2025