

Staff Briefing Papers

Meeting Date December 11, 2025

Agenda Item 5**

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

Docket No. **G-002/GR-25-356**

In the Matter of the Application of Xcel Energy for Authority to Increase Rates for Natural Gas Service in Minnesota

Issues Should this filing be accepted? If so, should the proposed rates be suspended, this matter referred to the Court of Administrative Hearings, and interim rates set as requested by the Company.

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The attached materials are work papers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless noted otherwise.

✓ Relevant Documents

Date

Xcel Energy – Initial Filing, General Rate Petition, Vols. 1 & 2 ¹	October 31, 2025
Citizens Utility Board of Minnesota – Comments	November 12, 2025
Office of the Attorney General – Comments	November 12, 2025
Department of Commerce – Comments	November 13, 2025
Xcel Energy – Reply Comments	November 17, 2025
Office of the Attorney General – Reply Comments	November 17, 2025

¹ The relevant documents listed for this meeting only includes Volumes 1 - 3 of Xcel Energy's initial filing (omitting workpaper volumes). The Interim Rates Petition is found in Volume 1. The pre-filed direct testimony of Xcel Energy's witnesses is in Volume 2. The required information per Minnesota Rules is in Volume 3.

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I. Background

On October 31, 2025, Northern States Power Company d/b/a Xcel Energy (Xcel Energy or the Company) filed a general rate case (Petition) with the Minnesota Public Utilities Commission (Commission) requesting a \$63.40 million annual increase, or 8.2 %, ² to its Minnesota retail natural gas rates, effective January 1, 2026, based on a rate of return on common equity capital of 10.65%.

Xcel Energy proposed a forecasted test year ending on December 31, 2026. The proposed test year is based on 497,838 customers ³ and natural gas throughput of 122,792,367 dekatherms ⁴ (Dth).

The basic issues at this stage of a rate case are whether to accept the filing, suspend the proposed final rates, refer this matter to the Court of Administrative Hearings (CAH) for a contested case proceeding, and set interim rates subject to refund.

If the Commission decides to suspend Xcel Energy's proposed rates, the Company requests a \$51.47 million, or 6.8%, ⁵ interim rate increase which represents 81% of Xcel Energy's total request. The Company proposed to apply the interim rate increase as a uniform 16.19 % increase to the base rate portion of customers' bills (exclusive of the base cost of gas and certain riders) beginning January 1, 2026.

Also, on October 31, 2025, Xcel filed an alternative proposal (the Stay-Out Proposal) ⁶ for its State Energy Policy (SEP) Rider Recovery with True-Up Mechanisms. The Company requested approval to establish a baseline for certain expenses in the SEP Rider, effective January 1, 2026, subject to a true-up to actual 2026 amounts. If approved, the Company would withdraw this rate case proceeding, continue to charge 2026 base rates based on its previously approved 2024 rate plan (Docket No. 23-413), and would not file a new general rate case until on or after October 30, 2026. The SEP Rider would remain in effect until the Company's next gas rate case. Xcel also requested approval to continue tracking incremental Property Tax and Damage Prevention costs beyond 2026 for review in a future rate proceeding.

The Stay-Out Proposal and this proceeding are scheduled to be heard at the Commission's December 11, 2025, agenda meeting.

² Xcel Energy Rate Case Application, Vol. I. pg. 2

³ Exhibit___(JMG-1), Schedule 3

⁴ Goodenough Direct, p. 2

⁵ Xcel Energy Rate Case Application, Vol. I, pg. 2

⁶ The Stay-Out docket G-002/M-24-403 is seeking approval of its State Energy Policy (SEP) Rider Recovery with True-Up Mechanisms (Capital True-Up, Property Tax True-Up, Labor Cost Recovery, Damage Prevention Recovery, Manufactured Gas Plant Costs). The Company requested approval to establish a baseline for certain expenses in the SEP Rider, effective January 1, 2026, subject to a true-up to actual 2026 amounts.

II. Discussion

On November 3, 2025, the Commission issued its notice requesting comments on whether Xcel Energy's filing complies with the filing requirements in Minn. Stat. § 216B.16, Minn. Rules, Parts 7825.3100 to 7825.4400 and Commission Orders. The Commission also asked for comments on whether this rate application should be referred to the CAH for a contested case proceeding.

A. Department of Commerce

On November 13, 2025, the Minnesota Department of Commerce, Division of Energy Resources (Department) filed comments recommending that the Commission accept Xcel Energy's Petition as complete of October 31, 2025 and refer this matter to the CAH for a contested case proceeding; and develop the record on the reasonableness of the Company's proposed revenue requirement, class cost of service, rate design, capital structure, cost of capital, and return on equity (ROE).

The Department explained that its initial review of Xcel Energy's Petition relates only to whether the Company's application complies with the following:

- Statutory requirements (Minnesota Statutes §216B.16);
- Commission rules governing filing requirements for rate changes (Minnesota Rules parts 7825.3100 to 7825.4400);
- Commission's Order from Xcel Energy's most recent rate case;⁷
- Commission's Orders in various dockets prior to and subsequent to Xcel Energy's most recent rate case; and
- Commission policy statements.⁸

The Department noted that Xcel Energy provided a Completeness Matrix Table in Volume 2 - Amy A. Liberkowski Direct Testimony and Schedules⁹, which lists the requirements identified by the Company and references where the information is found in the Petition.

The Department also stated that it typically does not comment on interim rates, however recommended that the Commission find exigent circumstances for residential customers due to economic instability, including the ongoing federal government shutdown, the potential loss of Affordable Care Act subsidies, labor market deterioration, and recent inflationary pressures which warrant a departure from the statutory interim rate formula. The Department recommended limiting the residential interim rate increase to \$16.2 million (or 50%) of Xcel's requested increase for that class.¹⁰ The Department noted that this reduction is necessary given how the exigent circumstances affect customers' ability to pay.

⁷ Docket G-002/GR-23-413

⁸ On June 14, 1982, the Commission issued policy statements on rate cases to assist utilities by providing advanced guidance on the likely treatment of specific issues.

⁹ Exhibit____(AAL-1), Schedule 2

¹⁰ Department Comments, at 6

In addition, the Department has identified one area in Xcel's Application that may require expert assistance: the Company's proposal to include in rate base its prepaid pension asset and its accrued retiree medical and post-employment benefit liabilities. Pursuant to Minn. Stat. § 216B.62, subd. 8, the Department requested that the Commission find that an investigation requiring specialized technical expertise is necessary. The Department further requested that the Commissioner of Commerce seek authority from the Commissioner of Management and Budget to incur costs for such services for proceedings related to this docket.¹¹

Based on its review, the Department recommended the following:

1. Accept Xcel Energy's Petition as substantially complete as of October 31, 2025. Additionally, the Department recommended the Company provide electronic copies of its CCOS and revenue models in reply comments.
2. Refer this matter to the Office of Administrative Hearings for a contested case proceeding and request that the case proceeding develop and address the following issues:
 - a. Are the test year revenue requirement increases sought by the Company reasonable, or will it result in unreasonable and excessive earnings?
 - b. Are the class cost of service and rate design proposed by the Company reasonable?
 - c. Are the Company's proposed capital structure, cost of capital, and return on equity reasonable?
3. Request that the Department seek authorization under Minn. Stat. § 216B.62 from the Commissioner of Management and Budget to incur costs for specialized technical professional investigative services to develop and evaluate the record on the Company's rate case, including but not limited to, proposal to include in rate base its prepaid pension asset and its accrued retiree medical and post-employment benefit liability.
4. Allow Xcel to implement its annual interim rate revenue deficiency increase as proposed for 2026, except that, due to exigent circumstances, the Company must limit the rate increase for residential customers to \$16.2 million (50% of the requested amount) and reduce the interim rate revenue deficiency accordingly.

B. Office of the Attorney General

On November 12, 2025, the Minnesota Office of the Attorney General, Residential Utilities Division (OAG) filed comments on Xcel Energy's natural gas rate case. Primarily, OAG recommended that the Commission suspend the proposed final rates and refer the matter to the Court of Administrative Hearings (CAH) for a contested case and opposed Xcel Energy's full interim rate increase as well as addressed the Company's Stay-out Petition (Docket No. G-002/M-25-403) stating it is unlawful, unreasonable, and should be rejected.

¹¹ *Id.*, at 4

1. The OAG recommended that the Commission find exigent circumstances exist and reduce the requested interim rate due to:
 - Xcel's Stay-out Petition presents a conflicting filing: The Stay-out Petition cost recovery figure of \$46.3 million is lower than the requested interim amount, showing that the Company's actual operations do not require the full interim rate increase otherwise permitted under the statutory formula (up to \$51.47 million).¹² In essence, the OAG is using Xcel's own Stay-out Petition as supporting evidence that creates "exigent circumstances" justifying a deviation from the statutory interim rate formula.
 - The Commission has previously found exigent circumstances when utilities (such as Dakota Electric in 2019 and 2024, and CenterPoint in 2021) demonstrated they needed less than the statutory interim rate. In Xcel's case, the Stay-out Petition shows \$46.3 million is lower than the \$51.47 million requested, so approving the higher amount would be against the public interest.
 - The "significant economic uncertainty" created by the federal government shutdown, which has delayed or eliminated energy and food assistance benefits for vulnerable Minnesotans.

Therefore, the OAG recommended the Commission deny Xcel's proposed \$51.47 million (6.8%) interim rate increase and set interim rates no higher than the \$46.3 million identified in Xcel's Stay-out Petition.¹³

2. The OAG recommended that the Commission refer the rate case to the Court of Administrative Hearings for a contested case proceeding to ensure a full review of the reasonableness of Xcel's request, including the development of an evidentiary record on compensation for Xcel's ten highest-paid executives, as this issue remains contested in Xcel's 2021 post-appeal proceedings and current electric rate case.
3. The OAG also filed its comments regarding Xcel's Stay-Out Petition in this rate case docket. On that note, the OAG recommended that the Commission reject Xcel's Stay-Out Petition, as the costs identified by Xcel are not eligible for SEP rider recovery, lack the legislative authorization required for rider treatment, and have not been subjected to the level of scrutiny applied to standard rate case expenses such as capital expenditures, property taxes, and labor costs, which require evaluation to determine prudence and reasonableness.¹⁴

C. Citizens Utility Board of Minnesota – Comments

On November 12, 2025, the Citizens Utility Board of Minnesota (CUB) submitted comments on Xcel Energy's natural gas rate case. CUB primarily recommended that the Commission suspend

¹² OAG comments, at 5

¹³ *Id.*, at 9

¹⁴ See Docket No. G-002/M-25-403 - OAG Comments, pg. 4-5 and Minn. Stat. § 216B.16

the proposed final rates and refer the matter to the Court of Administrative Hearings (CAH) for a contested case to ensure a full review of the reasonableness of Xcel's request. CUB also provided recommendations regarding Xcel's interim rates and stay-out proposal.

CUB said the Commission must consider customers' ability to pay when setting rates, and that today's economic conditions clearly meet the standard for exigent circumstances. CUB cited the ongoing federal government shutdown created serious financial strain, which has left 1.4 million federal employees (an estimated 18,000 Minnesotans) without pay. At the same time, assistance programs like LIHEAP and SNAP have been disrupted, leaving over 125,000 Minnesota households unsure about energy assistance and delaying food benefits for more than 440,000 Minnesotans. The financial strain increased more due to the anticipated 2026 health insurance premium increases if federal Affordable Care Act tax credits are not extended. CUB argued these conditions create severe customer financial hardships and customer's ability to pay for utility service and recommended limiting interim rates to no more than 50% of Xcel's requested increase.¹⁵

CUB further requested approval of its petition to intervene, emphasizing its role as a nonprofit consumer advocate and its intent to analyze Xcel's proposed ROE, capital investments, and treatment of late fees and related interest.

Finally, CUB recommended that Xcel be required to send email notice of the proposed rate increase to its customers with a direct link for submitting public comments, noting the high level of public engagement produced by similar outreach in a recent Xcel electric rate case.

D. Xcel Energy – Reply Comments

On November 17, 2025, Xcel Energy filed reply comments agreeing with the parties' recommendation to accept the filing and refer this matter to the CAH for a contested case proceeding focusing on the test year revenue requirement, class cost of service, rate design, capital structure, cost of capital, and return on equity.

Xcel has no objection to CUB intervening nor objection to providing email notice to customers if directed by the Commission and will coordinate format with the Consumer Affairs Office and Executive Secretary.

Xcel Energy objected to the proposals to modify interim rates and strongly opposed any reduction purportedly justified by "exigent circumstances."

- Xcel argued that Department and CUB claims on government shutdown, potential future shutdowns, expiration of federal tax credits do not justify because the shutdown impacts are temporary and speculative. Xcel also argued that inflation and labor market pressures do not reflect urgent condition. Consumer Price Index (CPI) and labor market data show inflation and unemployment are within normal ranges.

¹⁵ CUB Comments, at 3-5

- Xcel argued that reducing interim rates by 50% for residential customers or limiting them to the SEP Rider amount, as the OAG recommended, would make interim rates an inaccurate reflection of the Company's actual costs, potential final outcomes, or the statutory formula. Moreover, based on past rate cases, such a reduction would make it highly likely that the Company would be unable to recover its Commission-approved, prudently incurred costs through the interim rate period.

Xcel further argued that because the primary driver of the rate increase request in this case is capital investments, reducing interim rates would limit recovery of costs for recent capital investments ensuring safe and reliable service. Xcel stated the past statutory formula outcomes have been reasonable, the final approved rates for 2023 were 97.9% and for 2024 were 83.9% of interim rates.

In conclusion, Xcel requested the Commission find the Application substantially complete and allow the Company to Implement interim rates per the statutory formula effective January 1, 2026.

E. Office of the Attorney General – Reply Comments

The OAG filed its reply comments on November 17, 2025 and noted that both the Department and CUB identified current economic conditions as creating exigent circumstances that would allow the Commission to reduce Xcel's interim rates. The OAG agreed with their argument and supported reducing the interim rate by either a 50% reduction in interim rates for residential customers or a 50% reduction to all customer classes. The OAG also reiterated its earlier position that Xcel's own Stay-Out Petition identified a revenue requirement of \$46.3 million, which is below the statutory interim amount and therefore provides additional basis for finding exigent circumstances.

In conclusion, the OAG stated that parties demonstrated significant economic hardship and uncertainty affecting Xcel's ratepayers. The record presented multiple options for the Commission to reduce Xcel's interim rates and may exercise its discretion to do so based on the demonstrated exigent circumstances.

III. Prior Rate Case

As shown in Tables 1 and 2, since 2004, Xcel Energy has filed five rate cases and requested increases that ranged from 1.7 % to 9.6 %. Approved increases during that time ranged from 45.1 percent to 78.45% of the initially requested amounts.

Table 1: Xcel Energy Gas Rate Case Summary Since 2004

Rate Case Year	Amount Requested (\$M)	% Increase	Interim Rates (\$M)	% Increase	Final Rates (\$M)	% Increase	Final Rates Authorized Return on Equity (ROE)	Final Rates Authorized Rate of Return (WACOC)
2024	\$59.03	9.6%	\$51.2	8.5%	\$46.31	7.5%	9.6%	7.16%
2021	\$35.6	6.6%	\$24.9	4.9%	\$20.5	2.63%	9.57%	6.97%
2009	\$16.20	2.80%	\$11.08	1.91%	\$7.30	1.26%	10.09%	8.28%
2006	\$18.50	2.41%	\$15.90	2.05%	\$14.40	1.88%	9.71%	8.37%
2004	\$9.90	1.70%	\$6.40	1.10%	\$5.80	0.99%	10.4%	8.75%

Table 2: Xcel Energy Gas's Final Authorized Rates as % of Initial Request

	Amount Requested (\$M)	Final Rates (\$M)	% Increase
2024	\$59.03	\$46.31	78.45%
2021	\$35.6	\$20.5	57.6%
2009	\$16.20	\$7.30	45.1%
2006	\$18.50	\$14.40	77.8%
2004	\$9.90	\$5.80	58.6%

IV. Xcel Energy Application

Effective January 1, 2026, Xcel Energy proposed an annual \$63.4 million increase, or 8.2%, (excluding rider roll-ins).¹⁶ The primary financial drivers for the request are increased annual capital and O&M costs since the Company's last rate case, particularly with respect to distribution, gas production and storage, information technology investments, return on equity, property and other taxes, distribution operating and administrative and general services.¹⁷

A. Comparison of Authorized and Proposed Revenue Requirement

Table 3 provides a comparison between the revenue requirement approved in Xcel Energy's 2023 rate case and the proposed revenue requirement in this docket.

¹⁶ Xcel Energy Rate Case Application, Volume I, Notice of Change in Rates, Application Letter, p. 1

¹⁷ Halama Direct at 9-10.

Table 3: Revenue Requirement Comparison of Prior Rate Case to Current Proposal
(in \$000s)¹⁸

	Authorized 2023 Rate Case 23- 413	Proposed 2026 Rate Case 25-356
Rate Base	\$1,245,437	\$1,468,059
Rate of Return	7.16%	7.79%
Return on Equity	9.60%	10.65%
Required Operating Income	\$89,173	114,362
Revenue	\$667,623	\$778,260
Expenses	\$581,096	\$711,919
AFUDC	\$2,646	\$2,842
Operating Income	\$89,173	\$69,183
Income Deficiency	\$0	\$45,179
Conversion Factor	1.403351	1.403351
Revenue Deficiency	\$0	\$63,402 ¹⁹

The proposed increase of approximately \$63.4 million can be attributed to the following changes since rates were increased in the 2021 rate case:

Increase in Rate Base	\$24.3 million
Increase in Rate of Return	\$11.0 million
<u>Increase in Net Income</u>	<u>\$28.1 million</u>
Total	\$63.4 million

When compared to its last rate case, the breakdown of the Company's requested increase shows an income deficiency primarily due to increases in capital and O&M costs.

As a result of the capital investments, since the last rate case, total plant in service increased by \$416.1 million (or 19%), and depreciation expense increased by \$109.0 million, (or 14%).

Table 4 provides an expense comparison, by major groups, of amounts approved in Xcel Energy's last rate case and amounts proposed in this rate case. Notable changes include:

- Cost of Gas - Increased by 24.1%
- Gas Distribution - Increased by 30.2%
- Distribution – Increased by 31.5 %
- Customer Service – Increased by 28.7%
- Administrative & General – Increased by 25.4%
- Depreciation – Increased by 24.3%

¹⁸ *Id.*, Table 2 and Schedule 7

¹⁹ Excel rounding issue compare from this number to Xcel's amount \$63,401

- Amortization – Increased by 410.5%
- Property Tax– Increased by 57.8%

Table 4: Xcel Energy Gas Operating Expense Comparison of Prior Rate Case and Current Proposal (in \$000)²⁰

Operating Expense	Approved Prior Rate Case 23- 413	Proposed Current Rate Case 25-356	\$ Change	% Change
Purchase Gas	\$350,434	\$434,954	\$84,520	24.1%
Gas Production and storage	\$7,527	\$7,822	\$295	3.9%
Gas Transmission	\$623	\$382	(\$241)	-38.7%
Distribution	\$38,726	\$50,427	\$11,701	30.2%
Customer Accounting	\$12,516	\$12,256	(\$260)	-2.1%
Customer Service and Information	\$29,720	\$38,253	\$8,533	28.7%
Sales Expenses	\$50	\$58	\$8	16.0%
Administration and General Expenses	\$25,785	\$32,326	\$6,541	25.4%
Depreciation Expense	\$71,691	\$89,099	\$17,408	24.3%
Amortizations Expense	\$411	\$2,098	\$1,687	410.5%
Property Tax	\$18,633	\$29,395	\$10,762	57.8%
Deferred Income Tax	\$5,220	\$8,310	\$3,090	59.2%
Federal/State Tax	\$16,341	\$2,812	(\$13,529)	-82.8%
Payroll/other tax	\$3,420	\$3,728	\$308	9.0%
Total Operating Expense	\$581,097	\$711,920	\$130,823	22.5%

B. Proposed Test Year Cost of Capital

The filing requirements regarding rate of return and cost of capital are found in Minnesota Rules, Part 7825.4200. These rules require the Company to provide:

- A rate of return cost of capital summary schedule showing the calculation of the weighted cost of capital using the proposed capital structure and the average capital structures for the most recent fiscal year and the projected fiscal year. This information shall be provided for the unconsolidated parent and subsidiary corporations, or for the consolidated parent corporation.
- Supporting schedules showing the calculation of the embedded cost of long-term debt, if any, and the embedded cost of preferred stock, if any, at the end of the most recent fiscal year and the projected fiscal year.
- Schedule showing average short-term securities for the proposed test year, most recent

²⁰ Halama Direct, Schedule 8

fiscal year, and the projected fiscal year.

Xcel Energy complied with this rule by providing the information in Volume 3, Section II, Tab 5.

In this case, Xcel Energy requested a rate of return on common equity of 10.65% and an overall weighted cost of capital of 7.79%. Table 5 summarizes Xcel Energy's proposed test year capital structure and cost of capital:

Table 5: Xcel Energy's Proposed Test Year Cost of Capital²¹

Component	Percent of Total	Cost Rate	Weighted Cost
Long-Term Debt	47.08%	4.64%	2.18%
Short-Term Debt	0.42%	4.56%	0.02%
Common Equity	52.50%	10.65%	5.59%
Total (ROR)			7.79%

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. Therefore, it is necessary to strike an appropriate balance with enough equity for safety but not so much that costs are unnecessarily high.

C. Proposed Test Year Sales Forecast

Xcel's sales forecast was provided in the direct testimony of John M. Goodenough, Director of the Sales, Energy, and Demand Forecasting Department for Xcel Energy Services Inc. Forecasted 2026 Test Year Sales are 122,792,367 Dth.²² This rate case follows the same policy for the Test Year Sales Forecast employed in Xcel Energy's previous gas rate case, Docket No. G-002/GR-23-413. Overall, the number of customers is expected to increase during the 2026 test year, and the total natural gas throughput is expected to decrease. The Company projected the 2026 total throughput to decrease by 0.3 percent.

The projected decrease in throughput is a result of lower Transportation volumes, which accounted for nearly 42 percent of the Company's natural gas throughput in 2024. Transportation volumes are expected to decrease by 4.1 percent in 2026 due primarily to

²¹ Wehner Direct, at 3.

²² Goodenough Direct, at 2

projected decreases in gas sales for electric generation. The increase in Residential sales in 2026 is driven by two main factors: the number of Residential customers is expected to grow by 1.8 percent from 2024 to 2026; and residential use-per-customer (UPC) is expected to increase from 2024 levels.²³

The Company developed regression models as the foundation for the sales forecasts of the Residential, Small Commercial, Large Commercial, Small Volume Interruptible, and Medium Volume Interruptible customer classes. The regression models were developed using the Metrix ND²⁴ software program, which is commonly used in the utility industry.

The monthly sales forecasts for these customer classes were developed based on regression models designed to define a statistical relationship between the historical sales and independent predictor variables, such as economic and demographic indicators, historical number of customers, and historical weather. Xcel used a 20-year time period (2005 to 2024) average weather to represent normal weather, expressed in heating degree days (HDD).

Since these classes are less sensitive to weather variations, for Demand, Large Volume Interruptible, Interdepartmental sales, Firm Transportation, Interruptible Transportation, and Negotiated Transportation forecasts, Xcel Energy used a historical trend modeling approach. In the present docket, Xcel Energy submitted all data used in its models on September 26, 2025, more than 30 days prior to filing its rate case.

Staff concludes that Xcel Energy's pre-filed data should enable any interested party to duplicate the results developed by the Company.

The Company noted that it filed the data used in the 2026 test year forecast in compliance with the Commission's order in Docket Nos. E-002/GR-08-1065 and E-002/GR-10-971, and Xcel Energy's commitment in Docket No. G-002/GR-09-1153. The information provided is extensive, and includes all customer count, throughput, weather, demographic, and binary data used to develop the test year forecast, as well as the following items:

1. An explanation of the source and work papers supporting the derivation or calculation of each of these data series, as well as a description and justification for each binary variable used.
2. All regression models and results, and a description of methods used and the results for the forecasts that are not based on a regression methodology.
3. An explanation of any exogenous adjustment made to the forecast.
4. An explanation of the unbilled sales estimation process for the test year and historical time period and all data necessary to recreate the conversion, including a description of

²³ Goodenough Direct at 10

²⁴ Metrix ND 7.0, Copyright © 1997-2020, Itron, Inc., <http://www.itron.com>.



the weather response coefficients and all data necessary to recreate the coefficients, and an explanation of the calculation of calendar month weather response coefficients.

5. All data necessary to weather normalize historical calendar month sales.
6. A reconciliation between different sources for historical billing-month sales.

Staff concludes Xcel Energy complied with the filing requirements regarding sales and weather data.

Table 6 provides a summary of Xcel Energy's 2026 test-year customer count and sales, by customer class.

Table 6: Xcel Energy Gas 2026 Test-Year Customer Count and Sales²⁵

	Customer	Sales (Dth)
Residential	460,713	39,424,795
Commercial	36,724	24,016,129
Demand	142	2,875,341
Interruptible	229	8,034,956
Transportation	29	48,441,146
Total Sales	497,838	122,792,367

D. Class Cost of Service Studies

1. Rules Requirement

Minnesota Rules, Part 7825.4300 requires a request for a change in rates to include:

A cost-of-service study by customer class of service, by geographic area, or other categorization as deemed appropriate for the change in rates requested, showing revenues, costs, and profitability for each class of service, geographic area, or other appropriate category, identifying the procedures and underlying rationale for cost and revenue allocations. Such study is appropriate whenever the utility proposes a change in rates which results in a material change in its rate structure.

Xcel Energy provided its Test Year 2026 Class Cost of Service Study (CCOSS) in Volume 3 Section II-6(C), along with additional documentation in Volume 2C, Schedules 3-5.²⁶

2. Required Studies for CCOSS

Xcel Energy submitted its Company proposed cost of service study, along with two additional

²⁵ Goodenough Direct, Schedule 3.

²⁶ Barthol Direct.

studies reflecting recommendations from the Department and the Suburban Rate Authority (SRA), as required by the Settlement from the previous rate case.²⁷

The Company's proposed cost study is based on forecasted 2026 embedded costs and, based on cost-causation principles, functionalizes, classifies, and allocates budgeted plant and expenses in the 2026 test year.²⁸

The Department recommended that customer-related distribution main costs be allocated using a customer allocator calculated from customer premise counts rather than on customer counts from the Company's sales and customer forecast. Xcel provided an additional cost study reflecting this recommendation.

Additionally, SRA proposed that the Company rely solely on the cost of plastic two-inch pipe when determining minimum system costs. SRA argued that circumstances requiring the use of steel pipe should be excluded because the Minimum System Study is a hypothetical construct, and real world constraints should not influence the development of this "hypothetical" minimum system. Xcel provided an additional cost study reflecting this recommendation.

3. Staff Comments

Staff concludes the cost studies provided by Xcel Energy are complete and comply with the standards required for acceptance.

E. Proposed Rate Design

The following is a summary and is not meant to be a complete or comprehensive catalog of Xcel Energy's rate design proposal in this docket.²⁹

1. Class Revenue Apportionment

For the 2026 Test Year, Xcel Energy proposed a \$63.4 million revenue increase, or approximately 8.2%. Table 7 compares the proposed 2026 Test Year revenue apportionment to present revenues and shows the dollar and percentage increases assigned to each customer class.

²⁷ *In the Matter of the Application of Northern States Power Company, d/b/a Xcel Energy, for Authority to Increase Rates for Natural Gas Service in Minnesota*, Docket No. G-002/GR-23-413, Settlement Agreement at 16 (June 26, 2024).

²⁸ Barthol Direct, at 2.

²⁹ For more detailed discussion of Xcel Energy's Rate Design proposals see Direct Testimony, Michelle M. Terwilliger, October 31, 2025.

Table 7: Xcel Energy's Current and Proposed Revenue Requirement³⁰

Customer Class	Customer Count	Sales Therms	Current Revenues (\$)	Proposed Revenues (\$)	Proposed Increase	
					(\$)	(%)
Firm						
Residential	460,713	39,424,795	\$452,990,740	\$492,328,639	\$39,337,899	8.68%
Small Commercial	25,000	5,679,769	\$59,599,329	\$66,289,454	\$6,690,125	11.23%
Large Commercial	11,724	18,336,360	\$172,032,214	\$180,642,713	\$8,610,499	5.01%
Small & Large Demand	142	2,875,341	\$24,367,315	\$26,077,931	\$1,710,616	7.02%
Interruptible						
Service						
Small	148	1,195,245	\$8,167,640	\$8,691,458	\$523,818	6.41%
Medium & Large	80	6,476,557	\$37,800,622	\$40,755,010	\$2,954,388	7.82%
Transportation						
Transportation	25	10,190,089	\$8,010,323	\$9,447,519	\$1,437,196	17.94%
Generation						
System						
Generation System	5	363,155	\$2,506,128	\$3,299,799	\$793,671	31.67%
Generation Transportation						
Generation Transportation	4	38,251,057	\$9,329,093	\$9,541,273	\$212,180	2.27%
Total Retail	497,841	122,792,368	\$774,803,404	\$837,073,796	\$62,270,392	8.04%
Other Gas Revenue				\$1,130,974	\$1,130,974	
Total Revenue	497,841	122,792,368	\$774,803,404	\$838,204,770	\$63,401,366	8.18%

Table 8 shows the proportional share of each rate class and Other Revenues in the overall revenue apportionment. While residential customers make up more than 93 percent of all customer accounts, they currently contribute about 58 percent of the total revenue requirement. Under the Company's proposal, the residential share would rise by less than one-half of a percentage point. Because of the size of the class, however, residential customers are responsible for more than 64 percent of the total proposed revenue increase.

³⁰ Michelle M. Terwilliger Direct Testimony, Schedule 5, October 31, 2025, Page 1 of 4.

Table 8: Xcel Energy's Current and Proposed Revenue Apportionment³¹

Customer Class	Customer Count	Sales Therms	Current Revenues	Proposed Revenues	Proposed Increase
Firm					
Residential	92.54%	32.11%	58.47%	58.74%	62.05%
Small Commercial	5.02%	4.63%	7.69%	7.91%	10.55%
Large Commercial	2.35%	14.93%	22.20%	21.55%	13.58%
Small & Large Demand	0.03%	2.34%	3.14%	3.11%	2.70%
Interruptible Service					
Small	0.03%	0.97%	1.05%	1.04%	0.83%
Medium & Large	0.02%	5.27%	4.88%	4.86%	4.66%
Transportation					
Transportation	0.01%	8.30%	1.03%	1.13%	2.27%
Generation System					
Generation System	0.00%	0.30%	0.32%	0.39%	1.25%
Generation Transportation					
Generation Transportation	0.00%	31.15%	1.20%	1.14%	0.33%
Total Retail	100.00%	100.00%	100.00%	100.00%	100.00%
Other Revenue				0.13%	1.78%

2. Basic Monthly Service Charges and Per-Therm Delivery Charges

The Company proposed increases to the basic monthly charges for several rate classes, including raising the residential charge from \$9.00 to \$12.00, a 33.3 percent increase.

Table 9 summarizes the current and proposed basic service charges by class.

³¹ *Id.*

Table 9: Xcel Energy's Current and Proposed Basic Monthly Charge³²

Customer Class	Basic Charge (\$/per month)			
	Current	Proposed	Increase (\$)	Increase (%)
Firm				
Residential	\$9.00	\$12.00	\$3.00	33.33%
Small Commercial	\$20.00	\$30.00	\$10.00	50.00%
Large Commercial	\$50.00	\$50.00	\$0.00	0.00%
Small Demand	\$175.00	\$175.00	\$0.00	0.00%
Large Demand	\$275.00	\$275.00	\$0.00	0.00%
Interruptible Service				
Small	\$150.00	\$150.00	\$0.00	0.00%
Medium	\$300.00	\$300.00	\$0.00	0.00%
Large	\$450.00	\$450.00	\$0.00	0.00%
Transportation				
Large Firm	\$300.00	\$300.00	\$0.00	0.00%
Small Interruptible	\$175.00	\$175.00	\$0.00	0.00%
Medium Interruptible	\$325.00	\$325.00	\$0.00	0.00%
Large Interruptible	\$475.00	\$475.00	\$0.00	0.00%

In addition to the proposed increase in the basic monthly charge, Xcel seeks to raise non-commodity distribution charges, including both volumetric (\$/therm) and demand (\$/peak therm) components. For residential customers, the volumetric distribution charge would increase by 24 percent, from \$0.380239 per therm to \$0.472233 per therm.

Table 10 summarizes the current and proposed distribution charges for each rate class.

³² Michelle M. Terwilliger Direct Testimony, Schedule 6, October 31, 2025.

Table 10: Xcel Energy's Current and Proposed Distribution Charge³³

Customer Class	Distribution Charge (\$/per therm)				Distribution Charge (\$/peak demand)			
	Current	Proposed	Increase	Increase (%)	Current	Proposed	Increase	Increase (%)
Firm								
Residential	\$0.38	\$0.47	\$0.09	24.19%				
Small Commercial	\$0.31	\$0.40	\$0.09	28.89%				
Large Commercial	\$0.27	\$0.34	\$0.07	26.40%				
Small Demand	\$0.15	\$0.23	\$0.07	46.39%	\$0.90	\$0.90	\$0.00	0.00%
Large Demand	\$0.15	\$0.23	\$0.07	46.39%	\$0.90	\$0.90	\$0.00	0.00%
Interruptible								
Service								
Small	\$0.22	\$0.28	\$0.06	29.29%				
Medium	\$0.15	\$0.23	\$0.07	46.39%				
Large	\$0.14	\$0.19	\$0.06	41.60%				
Transportation								
Large Firm	\$0.15	\$0.23	\$0.07	46.39%	\$0.90	\$0.90	\$0.00	0.00%
Small Interruptible	\$0.22	\$0.28	\$0.06	29.29%				
Medium Interruptible	\$0.15	\$0.23	\$0.07	46.39%				
Large Interruptible	\$0.14	\$0.19	\$0.06	41.60%				

V. Staff Analysis

A. Should this filing be accepted as substantially complete?

1. Compliance with rules and statutes.

Minnesota Statute §216B.16, Subdivision 1, requires a public utility to give the Commission a sixty-day notice prior to changing rates. The statute requires the notice to include:

... statements of facts, expert opinion, substantiating documents, and exhibits, supporting the change requested, and state the change proposed to be made in the rates then in force, and the time when the modified rates will go into effect.

Minnesota Rules, Parts 7825.3100 through 7825.4400, implement the above statute by setting out specific rate case filing requirements. Various parts of the Commission's rules of practice and procedure, Minnesota Rules, Chapter 7829, are also relevant.

Staff reviewed this filing for compliance under Minn. Stat. § 216B.16 and Minn. Rules 7825.3100 through 7825.4400. Staff agrees with the Department's analysis and believes Xcel Energy's filing substantially complies with these requirements.

³³ *Id.*



2. Compliance with and issues from prior Commission orders/recent & pending dockets before the Commission.

Staff reviewed this filing for compliance under Minn. Stat. § 216B.16 and Minn. Rules 7825.3100 through 7825.4400. In Volume 2 of the Application, in Schedule 2 of Xcel's policy witness Amy Liberkowski's Direct Testimony and Schedule, there is a Completeness Matrix that lists rate case filing requirements that apply to the Company. The table describes the filing requirements and generally identifies the location in the Application where each compliance item is addressed.

Staff thinks that the Company has made a good faith effort to comply and respond to the orders issued in the last rate case as well as other orders that have a bearing on this case. Therefore, Staff concurs with the Department's assessment that Xcel's filing is substantially complete as of October 31, 2025 and should be accepted.

B. If this filing is accepted, should the proposed rates be suspended, pursuant to Minn. Stat. § 216B.16, subd. 2?

If the Commission accepts this filing, Staff recommends that the Commission suspend the proposed final rates to allow parties to investigate the reasonableness of the requested increase. Once rates are suspended, and while the Company's filing is investigated and parties are in litigation, statute provides for the collection of interim rates during the suspension period. These rates are subject to refund.

C. If this filing is accepted, should this matter be referred to the Court of Administrative Hearings (CAH) for a contested case?

Pursuant to Minn. Stat. § 216B.16, subd. 2(b), the Commission is required to refer a rate case to the CAH for a contested case proceeding unless the Commission finds that all significant issues can be resolved to its satisfaction. Staff concludes that the Commission cannot make such a finding absent a fully developed record and recommends setting this matter for contested case.

The statutory deadline for the Commission to issue its final order in this matter is ten months from the date this filing was found to be substantially complete, pursuant to Minn. Stat. §216B.16, Subd. 2(a). If this case is accepted as of October 31, 2025, then the Commission's deadline for issuing an order would be August 31, 2026. However, pursuant to Minn. Stat. §216B.16, Subd. 2(f), the Commission has the authority to set a deadline up to ninety days later:

If the commission finds that it has insufficient time during the suspension period to make a final determination of a case involving changes in general rates because of the need to make a final determination of any pending case involving changes in general rates under this section or section 237.075, the commission may extend the suspension period to allow up to a total of 90 additional calendar days to make the final determination. An extension of the suspension period under this paragraph does not alter the setting of interim rates under subdivision 3.

At this time, the Commission has a pending electric rate case that was filed by Xcel Energy on November 1, 2024³⁴ and by Otter tail Power on October 31, 2025.³⁵

Absent an extension of time, the final order deadline in the instant case would be August 31, 2026; however, allowing for additional ninety days would allow for the following:

- More flexible scheduling.
- Mitigate any possible disadvantage for the Department, the OAG, and other parties that may be created by having to prepare testimony in this rate case while simultaneously participating in other rate cases.
- Better record development.
- More careful evaluation of the Company's proposal

For these reasons, Staff would recommend that, if the Commission finds it appropriate, the final order deadline be extended by the ninety days, until November 26, 2026. Furthermore, consistent with recent practice, the Commission has asked for the ALJ's report to be submitted at least three months (90 days) prior to the Commission's statutory deadline for issuing its order. However, in this instance, Staff would recommend a departure from recent practice and ask that the ALJ's report be filed no later than August 25, 2026. The additional time will allow Staff to manage procedural timelines in the currently active rate cases and the anticipated new rate cases that are expected to be filed on or around November 1, 2026. The additional time will ensure the Commission has sufficient time to consider this matter and issue its order within the revised statutory deadline.

D. Interventions

CUB requested that the Commission grant its petition to intervene as a party in the instant Proceeding. CUB noted that until the matter is referred to the Court of Administrative Hearings for a contested case, the Commission retains authority over petitions to intervene submitted by prospective parties.

CUB regularly contributes to proceedings before both the Commission and the Court of Administrative Hearings. It has participated or intervened in dockets involving rate setting, utility programs and offerings, the affordability of electricity service, and a multitude of related issues. CUB's intervention in the current proceeding would enable it to contribute to the development of a robust record for the Commission's consideration and help ensure the rates ultimately charged by Xcel Energy are just, reasonable, and consistent with the public interest.

Staff notes that CUB filed its request for intervention on November 12, 2025. Pursuant to Minn. R. 7829.0800, subp. 5, the request is deemed approved "if there is no objection to intervention and a petition to intervene is not denied or suspended within 15 days of filing." Since there were no objection within the 15-day period, CUB's intervention is therefore approved, and no

³⁴ Docket No. E-002/GR-24-320.

³⁵ Docket No. E-017/GR-25-359.

further Commission action is required.

Parties requesting to become intervenors after the case is referred to the CAH fall under the CAH rules of practice and procedure, Minn. Rule 1400.6200. Under the CAH rules, parties that have been denied requests for intervention may file motions, under Minn. Rule 1400.6600 to ask the ALJ to send his or her decision to the Commission for review, pursuant to Minn. Rule 1400.7600 (Certification). The ALJ then decides whether the request merits certification and, if so, whether the certification should occur right away or at the end of the case.

The Commission may wish to state its position on the record and note that parties requesting intervenor status should be considered from a view towards inclusivity, transparency, and completeness of the record, rather than limiting participation in the case in the interest of administrative efficiency.

E. Identification of issues of special interest or requiring additional, supplemental testimony

In its Petition, Xcel Energy provided a schedule which includes a list of information required under several Commission orders and where in the Company's pre-filed testimony these issues are addressed. The Commission may want to include a general request that parties thoroughly review issues identified in the Commission's past orders. If the Commission wants to give special emphasis to any of these particular requirements, it could do so at this time.

In addition to the standard rate case issues,³⁶ the Commission may also want to include in its Notice of and Order for Hearing, a request that parties thoroughly address and develop a complete record (e.g., in testimony, at hearing, and if applicable, in settlement documents) on the following issues noted and any additional issues the Commission may wish to identify.

1. Base Cost of Gas

The per dekatherm demand cost proposed in the Company's companion base cost of gas filing (Docket No. G-002/MR-25-357) is based on Xcel Energy's sales forecast. In the event the sales forecast changes, then the per dekatherm demand cost will also change. As such, any sales forecast change will make it necessary to adjust the demand rate(s) in the base cost of gas. If there is a change in the sales forecast, Staff recommends that the Commission request that parties make the necessary adjustment to the per unit demand cost of gas. This will eliminate the need to revise the operating income statement after the Commission's Order in the rate case. Staff has included a decision alternative for consideration.

2. Financial Matters

The Commission may want to request full record development that includes explanations and supporting reasons for the significant changes in the following costs since the last rate case:

³⁶ The standard rate case issues are: 1) Is the test year revenue increase sought by the Company reasonable or will it result in unreasonable and excessive earnings by the Company? 2) Is the rate design proposed by the Company reasonable? and 3) Are the Company's proposed capital structure and return on equity reasonable?

- Cost of Gas - Increased by 24.1%
- Gas Distribution - Increased by 30.2%
- Distribution – Increased by 31.5 %
- Customer Service – Increased by 28.7%
- Administrative & General – Increased by 25.4%
- Depreciation – Increased by 24.3%
- Amortization – Increased by 410.5%
- Property Tax– Increased by 57.8%

3. Top Ten Executive Pay Compensation

As part of its Petition, Xcel Energy seeks to recover compensation for its ten highest paid employees (Top 10)³⁷. Staff notes that in the Commission’s July 17, 2023, Order in Xcel Energy’s most recent electric rate case,³⁸ the Commission took exception to the Company’s request:

While the ALJ did not directly address the issue of top-10 executive compensation and no formal party commented on it, the Commission received comments from members of the public stating that it would be unreasonable for ratepayers to pay such levels of compensation for Xcel’s executives, particularly as many Minnesotans face continuing economic challenges including widespread inflation in the costs of necessities such as food, fuel, and medical expenses; ongoing surcharges and high market prices for natural gas related to extreme weather and market events; and lasting effects of the COVID-19 pandemic on individual incomes and on the broader economy.³⁹

As a result, the Commission concluded that Xcel Energy’s Top 10 request was unreasonable and reduced total Top 10 recovery.

Based on the Commission’s finding in Xcel Energy’s electric rate case and, since the Company has requested Top 10 recovery in this filing, the Commission may want to highlight this issue for additional record development when it refers this filing to CAH.

4. Carbon-Free Electricity Standard

MN Statute 216H.02⁴⁰ provides that (a) It is the goal of the state to reduce statewide greenhouse gas emissions across all sectors producing greenhouse gas emissions by at least the following amounts, compared with the level of emissions in 2005.⁴¹

³⁷ Xcel Initial, Vol3. Section IV, Schedule 5

³⁸ Docket No. E-002/GR-21-630.

³⁹ Commission Order, at 20.

⁴⁰ See [MN Statute 216H.02](#),

⁴¹ MN Statute 216H.02, Subd. 1

- (1) 15 percent by 2015;
- (2) 30 percent by 2025;
- (3) 50 percent by 2030; and
- (4) to net zero by 2050

More, Minnesota’s 2023 Carbon-Free Electricity Standard requires utilities to prove 100% carbon-free electricity by 2040.

In Xcel’s most recently decided rate case (docket no. G002/GR-23-413, decided March 5, 2025) the Company explained a vision for net zero. The Company stated, “Expanding on our industry-leading electric system emissions reduction goal, our Net-Zero Vision for Natural Gas includes commitments to also deliver reliable, affordable natural gas service with 25 percent fewer GHG emissions by 2030 (from 2020 levels) and net-zero GHG emissions by 2050.”⁴² Xcel further explained strategies to achieve the Company’s vision which started with plans to accelerate methane emissions by purchasing low emissions gas, improving the gas delivery system, providing customers with options to reduce emissions (e.g., energy conservation and pilot programs).

In the instant rate case (docket no. G002/GR-25-356), Xcel stated that its net-zero vision as “evolved” to adopt an “electrification-first focus to 2030, rather than a mass-based target, previously 25 percent reduction in GHG emissions by 2030.”⁴³ The Company explained that the evolved vision “reflect the reality that the customer drives the pace of adoption.” Thus, the Company’s strategy to comply with Minnesota law appears to have pivoted from a focus on the utility’s distribution system to a focus on customer responsibility. As Xcel adopts an electrification-first focus to 2030, the Commission may want to request record development on the Company’s Carbon Free Standard strategies. Specifically, how does the company expect the new strategy to maintain its alignment with its goal to be a net-zero energy provider by 2050 and what cost recovery mechanisms or rate design changes are being considered to support long-term investment in electrification infrastructure?

5. Public Utilities Energy Conservation and Optimization

Minnesota Statute 216B.241 subdivision 2(b) discusses Public Utilities Energy Conservation and Optimization (ECO) and specifically, recent legislative updates that allow a utility’s ECO plans to include efficient fuel switching (EFS) improvements. Minn. Stat. 216B.241 subd. 12 provides greater detail on fuel switching for gas utilities and explains that public utilities may count an approved EFS program’s energy savings towards the utility’s energy savings goal.

Xcel gas’ updated vision for natural gas underscores the importance of customer-driven electrification. To this extent, Lyng’s direct testimony explained that over 8,000 customers have participated in Efficient Fuel Switching, far exceeding Xcel’s predictions.⁴⁴ With greater than

⁴² Docket No. G002/GR-23-413, Lyng Direct, at 9

⁴³ Docket No. G002/GR-25-356, Lyng Direct, at 10

⁴⁴ *Id.* Lyng Direct, at 6

expected use of EFS, the Commission may want to request record development on this issue. Specifically, what adjustments are being made to reflect potential revenue shifts, stranded asset risks, changes in cost allocations, or other financial impacts?

F. If this filing is accepted, should interim rates be set as requested by the Company?

Based on a 10.65% rate of return on common equity; for the purpose of setting interim rates, Xcel Energy proposed an interim increase of \$51.47 million, or 6.8%. Xcel Energy requested interim rates be made effective for service rendered on and after January 1, 2026, subject to refund pending final Commission action on the general rate increase application.

1. Interim Rate Statute

Minn. Stat. § 216B.16, subd. 3, states in part that:

(a) Notwithstanding any order of suspension of a proposed increase in rates, the commission shall order an interim rate schedule into effect not later than 60 days after the initial filing date. The Commission shall order the interim rate schedule ex parte without a public hearing. ... [and]

(b) Unless the Commission finds that exigent circumstances exist, the interim rate schedule shall be calculated using the proposed test year cost of capital, rate base, and expenses, except that it shall include: (1) a rate of return on common equity for the utility equal to that authorized by the commission in the utility's most recent rate proceeding; (2) rate base or expense items the same in nature and kind as those allowed by a currently effective order of the commission in the utility's most recent rate proceeding; and (3) no change in the existing rate design.

2. Effective Date for Interim Rate

If the Commission accepts Xcel Energy's filing as substantially complete as of as of October 31, 2025, and suspends the proposed final rates then, pursuant to Minn. Stat. § 216B.16, subd. 3(a), the Commission must order interim rates into effect within 60 days or no later than December 31, 2025. However, Xcel Energy has stated that it will not put interim rates until the start of the test year, or January 1, 2026. No party has objected to the proposed January 1 implementation date.

3. Interim Rate Increase

As shown in Table 11, Xcel Energy proposed an interim rate increase, subject to refund, of approximately \$51.47 million based on the following revenue summary:

Table 11: Xcel Energy Gas, Proposed Interim Rate Revenue Increase⁴⁵

	<u>Proposed 2026 Interim Rate Increase (\$000)</u>
Rate Base	\$1,345,584
Rate of Return	7.24%
Required Operating Income	\$97,420
Net Operating Income	\$60,742
Income Deficiency	\$36,678
Revenue Conversion Factor	1.403351
Revenue Deficiency	\$51,472

The interim rate request is \$11.9 million lower than Xcel Energy's \$63.4 million general rate case increase request.

4. Exigent Circumstances

As previously discussed, the Department, OAG, and CUB have requested that the Commission find exigent circumstances and reduce the interim rate increase as follows:

- The Department recommended limiting the residential customers interim rate increase to \$16.2 million (50% of the requested amount) and reducing the interim rate revenue deficiency accordingly.
- CUB recommended setting interim rate at most 50% of the Company's total request amount.
- The OAG recommended setting interim rates no higher than the \$46.3 million as identified in the Company's Stay-out petition.

Xcel Energy disagreed with all parties' recommendations regarding exigent circumstances, stating that neither the current economic conditions nor the OAG's reliance on the Company's Stay-Out Petition support such a finding.

Staff offers the following discussion to provide some historical background and perspective to the interim rate statute and the issue of exigent circumstance presented in comments and replies.

5. Legal Background on Finding Exigent Circumstances and Departing from the Statutory Formula in Setting Interim Rates in a General Rate Case

On September 18, 2013, the Supreme Court of Minnesota issued a decision upholding the Commission's authority to depart from the statutory formula in setting interim rates under Minn. Stat. § 216B.16, subd. 3(b), if it finds that exigent circumstances exist to justify the

⁴⁵ Docket No. G002/GR-25-356, Volume 1, Schedule B, Part 3.

departure.⁴⁶ When determining whether exigent circumstances exist, the Commission may consider relevant factors outside those listed in subdivision 3—such as the state of the economy and the size and timing of the requested rate increase.⁴⁷ The Commission must identify the exigent circumstances that are present, and the finding must be supported by substantial evidence in the record.⁴⁸

Because “exigent circumstances” is not defined in the statute, the term is construed according to its common usage.⁴⁹ In *In re Application of Minnesota Power*, the court cited several dictionary definitions defining “exigent circumstances” as a “situation that may allow people to circumvent usual procedures,” and defining “exigent” as “[r]equiring immediate action” or similar.⁵⁰

The court determined that the existence of exigent circumstances is primarily a factual determination for the Commission to make as part of its interim rate making function, requiring application of the Commission’s technical knowledge and expertise to the facts presented.⁵¹

If the Commission finds exigent circumstances based on substantial evidence, then the Commission has discretion to depart from the statutory formula and to set interim rates consistent with the general ratemaking principles of Minn. Stat. § 216B. These principles include:

- “Every rate made, demanded, or received by any public utility . . . shall be just and reasonable.”⁵²
- The Commission “shall give due consideration to the public need for adequate efficient, and reasonable service and to the need of the public utility for revenue sufficient to enable it to meet the cost of furnishing the service . . . and to earn a fair and reasonable return” on eligible investment.⁵³
- “Any doubt as to reasonableness should be resolved in favor of the consumer.”⁵⁴

⁴⁶ *In the Matter of the Application of Minnesota Power for Authority to Increase Rates for Electric Service in Minnesota (In re Application of Minnesota Power)*, 838 N.W.2d 747, 757 (Minn. 2013).

⁴⁷ See *id.* at 757–758.

⁴⁸ *Id.*

⁴⁹ *Id.* at 758 (citing Minn. Stat. § 645.08).

⁵⁰ *Id.*

⁵¹ *Id.*

⁵² Minn. Stat. § 216B.03.

⁵³ Minn. Stat. § 216B.16, subd. 6.

⁵⁴ Minn. Stat. § 216B.03.

Accordingly, setting interim rates under exigent circumstances requires the Commission to apply its experience and technical knowledge of the utility industry to determine a just and reasonable rate, balancing the interests of the utility and ratepayers.⁵⁵

6. Cost of Capital

Minn. Stat. § 216B.16, subd. 3(b), provides among other things, that unless:

... the commission finds that exigent circumstances exist, the interim rate schedule shall be calculated using the proposed test year cost of capital, rate base, and expenses, except that it shall include: (1) a rate of return on common equity for the utility equal to that authorized by the commission in the utility's most recent rate proceeding. . . .

Xcel Energy's proposed test-year cost of capital is:

Table 12: Proposed Test Year Cost of Capital⁵⁶

Component	Percent of Total	Cost Rate	Weighted Cost
Long-Term Debt	47.08%	4.64%	2.18%
Short-Term Debt	0.42%	4.56%	0.02%
Common Equity	52.50%	10.65%	5.59%
Total (ROR)			7.79%

In its most recent rate case Xcel Energy was authorized a rate of return of 7.16 % based on the following:⁵⁷

Table 13: Most Recent Authorized Cost of Capital⁵⁸

Component	Percent of Total	Cost Rate	Weighted Cost
Long-Term Debt	46.87%	4.46%	2.09%
Short-Term Debt	0.63%	5.01%	0.03%
Common Equity	52.50%	9.60%	5.04%
Total (ROR)			7.16%

The Company proposed an interim cost of capital of 7.24 % based on its proposed capital structure and cost of debt rates and the rate of return on common equity that was authorized in its last rate case which results in the following:

⁵⁵ *In re Application of Minnesota Power*, 838 N.W.2d at 758.

⁵⁶ Wehner Direct, at 3.

⁵⁷ Volume 1, Schedule C, Part 4, at 1.

⁵⁸ *Id.*

Table 14: Proposed Interim Rates Cost of Capital⁵⁹

Component	Percent of Total	Cost Rate	Weighted Cost
Long-Term Debt	47.08%	4.64%	2.18%
Short-Term Debt	0.42%	4.56%	0.02%
Common Equity	52.50%	9.60%	5.04%
Total (ROR)			7.24%

The Company's proposed cost of capital for interim rates follows the statutorily prescribed method for calculating the interim cost of capital.

7. Rate Design – Interim Rate Increase

Xcel Energy proposed an interim gross revenue increase of \$51.47 million, or 6.8 %, which would be implemented as a uniform 16.19% surcharge on the base-rate components of customer bills as summarized in Table 15.

Table 15: Interim Rate Calculations⁶⁰

Customer Class	Present Revenues (\$)	Proposed Revenues (\$)	Proposed Increase	
			(\$)	(%)
Firm				
Residential	\$199,665,498	\$231,991,342	\$32,325,844	16.19%
Small Commercial	\$23,688,344	\$27,523,487	\$3,835,143	16.19%
Large Commercial	\$57,007,287	\$66,236,767	\$9,229,480	16.19%
Small & Large Demand	\$7,940,131	\$9,225,638	\$1,285,507	16.19%
Interruptible				
Service				
Small	\$2,768,025	\$3,216,168	\$448,143	16.19%
Medium & Large	\$9,399,135	\$10,920,855	\$1,521,720	16.19%
Transportation				
Transportation	\$7,333,361	\$8,520,632	\$1,187,271	16.19%
Generation				
Generation	\$9,310,103	\$10,817,409	\$1,507,306	16.19%
Total Retail	\$317,111,884	\$368,452,298	\$51,340,414	16.19%
Late Pay			\$123,826	
Total Revenue	\$317,111,884	\$368,452,298	\$51,464,240	16.23%

If the Commission suspends Xcel's proposed 2026 natural-gas rate increase, the Company requests authorization for interim rates effective January 1, 2026, as permitted under Minn. Stat. § 216B.16, subd. 3.

⁵⁹ Volume 1, Schedule C, Part 4, at 1

⁶⁰ Xcel Petition, Vol.1, Interim Rate Petition, Schedule 2, page 119.

Under the Interim Rate Surcharge Rider, the 16.19% adjustment applies only to base-rate elements within eligible service classifications and specifically excludes the Purchased Gas Adjustment, CIP Rider, GUIC Rider, RDM Rider, NGIA Rider, franchise fees, city fees, and other enumerated surcharges.⁶¹

As shown in Table 16, a typical residential customer using 71 therms per month, interim rates would increase the monthly bill by about \$5.84, or roughly 7 percent, which equates to \$70.08 annually.

Table 16: Proposed Interim rate change on monthly bills⁶²

Customer Class	Average Monthly Usage in Ccf (or therms)	Average Monthly Bill - Current Rates	Average Monthly Bill - Interim Rates	Increase (%)
Residential	71	\$82	\$88	7%
Sm. Commercial	189	\$199	\$211	6%
Lg. Commercial	1,303	\$1,235	\$1,300	5%
Sm. Demand	7,924	\$6,918	\$7,293	5%
Lg. Demand	17,776	\$15,015	\$15,809	5%
Sm. Interruptible	6,745	\$4,633	\$4,898	6%
Med. Interruptible	46,220	\$27,353	\$28,555	4%
Lg. Interruptible	617,483	\$350,615	\$364,315	4%
Lg. Firm Transport**	75,708	\$19,432	\$22,455	16%
Sm. Interruptible Transport**	6,745	\$1,729	\$1,998	16%
Med. Interruptible Transport**	118,174	\$19,722	\$22,724	15%
Lg. Interruptible Transport**	2,119,680	\$88,455	\$99,345	12%

*** Transportation classes bill estimates do not include the cost of gas*

Staff recommends approval of the rate design methodology—i.e., applying an across-the-board increase to all customer classes—because it fulfills the “no change in existing rate design” direction contained in Minn. Stat. §216B.16, subd. 3, and it is consistent with the Commission’s Statement of Policy on Interim Rates, which states that “...interim rates should consist of the existing rate schedules with an interim rate adjustment equal to the overall requested interim increase percentage.”⁶³

⁶¹ *Id.*, Interim Rate Surcharge Rider, page 130

⁶² Xcel Petition, Vol.1, Interim Rate Petition, page 72.

⁶³ “The Commission interprets that ‘no change in the existing rate design’ applies to both the allocation of revenue responsibility among customer classes (or product and service categories) and the structure of the individual rates. Accordingly, interim rates should consist of the existing rate schedules with an interim rate

8. Negotiated Transportation Service Customer - Interim Rates

While, in general, Xcel Energy proposed to assess the same interim rate increase to all customers, it did not propose to collect an interim increase from customers who have previously entered into a negotiated transportation service contract.⁶⁴ Staff concludes that Xcel Energy's proposal is appropriate and consistent with its prior rate cases. Further, Staff believes the proposal could be approved without a finding of exigent circumstances. According to the interim rate statute, Minn. Stat. § 216B.16, subd. 3,

... Unless the commission finds that exigent circumstances exist, the interim rate schedule shall be calculated using ... (3) no change in the existing rate design.

While the Company will not be collecting the revenue from negotiated transportation service customers, Xcel Energy's proposal complies with this statute, because the interim rate is calculated as though there were no change in rate design; thus the Company will forego the revenue, but its other customers will be held harmless. In the Commission's December 30, 2021, Order Setting Interim Rates in Xcel Energy's most recent case, the Commission found that this proposal "... gives Xcel Energy a competitive edge for keeping these customers. Because the lost revenue is forfeited it will not affect Xcel Energy's other customers, will not require a change in rate design, and will not require a finding of exigent circumstances."⁶⁵

9. Staff Comment

Staff reviewed this filing for compliance under Minn. Stat. § 216B.16 and Minn. Rules 7825.3100 through 7825.4400. Xcel Energy prepared a Filing Requirements Compliance Table that lists the requirements identified by the Company and references where this information is in the case.⁶⁶

Staff concludes that Xcel Energy has made a good faith effort to comply and respond to the orders issued in the last rate case as well as other orders that have a bearing on this case; therefore, Staff recommends that the Company's petition be approved as substantially complete as of October 31, 2025.

10. Methods and Procedures for Refunding

Pursuant to Minn. Stat. §216B.16, subd. 3, Xcel Energy's filing contains the Company's "Agreement and Undertaking of Refund". It states that the Company agrees and undertakes to

adjustment equal to the overall requested interim increase percentage. This procedure will assure that consumption decisions will be made on the same basis as under existing rates and will allow refunds, if necessary, to be made across-the-board to all customers such that the final rates are prospective only. . . . The interim rate adjustment should be shown as a separate item on the customer's bill, if practical." Minnesota Public Utilities Commission, Statement of Policy on Interim Rates, April 14, 1982, pp. 1-2.

⁶⁴ See Notice and Petition for Interim Rate, at 9 (Section II-Require Information, #10)

⁶⁵ Docket No. G-002/GR-21-678, Order Setting Interim Rates, December 30, 2021, at 4.

⁶⁶ Exhibit___(AAL-1), Schedule 2

refund to its customers the amount collected in excess of final authorized rates, if any collected during the interim rate period, plus interest at the current rate determined by the Commission, computed from the effective date of the interim rates through the date of refund.⁶⁷

VI. Public Hearings

The date, time, and location of the public hearings is typically discussed and decided proximate to the pre-hearing conference by the Administrative Law Judge, in consultation with the needed for the purpose of issuing the Commission’s orders at this time.

Table 17 summarizes public hearing locations and attendance information from Xcel Energy’s last four rate cases.

Table 17: Public Hearings

	2004	2006	2009	2021	2024
Public Hearing Locations	St. Paul, Woodbury, St. Cloud	St. Paul, Oakdale, St. Cloud	St. Paul, Woodbury, St. Cloud	St. Cloud, Woodbury, Virtual	Big Lake, St. Paul, Rosemount, Blaine, Woodbury, Red Wing, Virtual
Public Hearing - Estimated Attendance	25	31	5	6	31

Public hearings provide the public with an opportunity to participate in this proceeding; therefore, despite the low attendance in the recent cases, the Commission may want to continue holding hearings in the same locations and include an option for the public to participate virtually. Any additional direction the Commission may want to provide for the ALJ would be welcome.

VII. Public Comments

The Commission received one public comment requesting the Commission to deny Xcel Energy’s request.⁶⁸

VIII. Administrative and Compliance Issues

The Commission's practice in most rate cases has been to require: a) notice to municipalities and counties of the proposed rate change, b) public hearings at locations within the company's service area, and c) notice of evidentiary and public hearings.

⁶⁷ The “Agreement and Undertaking” is found in Vol. 1, under the “Agreement and Undertaking” tab.

⁶⁸ Written comments are available through the eDockets system.

The decision alternatives contain ordering language that is similar to the language used in notice and orders for hearing in previous general rate proceedings. Staff recommends that this language be incorporated into the Commission's decisions in this docket. General rate case notice requirements can be found in Minn. Stat. § 216B.16, subd. 1, and Minn. Rules, Part 7829.2400, subparts 3 and 7.

The Commission's practice has also been to require interim rate compliance filings. These filings typically include tariff sheets with supporting documentation, and a Commission-approved notice to customers of the interim rate increase. Companies are also required to keep records of their sales and collections to support any potential interim rate refund obligation. The decision alternatives contain language typical of the language used in previous Commission Orders authorizing interim rates.

Staff recommends the Commission require all of the listed Administrative and Compliance decision alternatives.

Regarding the Approval of Notices and Customer Bill Inserts decision alternative, customer notices are generally administrative items that are negotiated between Commission Staff and the utility. Staff has been working with the Company to finalize these notices prior to issuance. Authority to approve notices is usually delegated to the Commission's Executive Secretary for the duration of the proceeding. Staff recommends continuing that practice here. Additionally, staff recommends delegating authority to the Executive Secretary to extend deadlines and modify timelines throughout the duration of this proceeding.

IX. Concluding Comment and Recommendation

If the Commission accepts this filing as substantially complete, the Commission should also suspend the proposed final rates, set this matter for contested case hearing, and request the ALJ's report and recommendation within a sufficient amount of time for the Commission to issue its order before the statutory deadline.

Staff also recommends that the base cost of gas in this docket be consistent with the base cost of gas decision in Docket No. G-002/MR-25-357, which is also on the agenda for this commission meeting.

Staff also recommends all the administrative and compliance items listed under alternatives 25 and 26 and recommends that the Commission delegate authority to the Executive Secretary to approve notices and customer bill inserts along with authority to extend deadlines and modify timelines for the duration of this proceeding.

Additionally, staff included a decision option requiring the Company to track Energy Conservation and Optimization (ECO) program costs and collection through the interim period so that it can be ascertained that recoveries dedicated to ECO are properly recorded.

In 2021, the Minnesota Legislature passed the Energy Conservation and Optimization Act (ECO Act), updating and modernizing the previous Conservation Improvement Program (CIP).

Oversight of the state's ECO program is split between two jurisdictions: that of the Commission and that of the Commissioner of the Department of Commerce. Broadly, the Commerce Commissioner oversees the bulk of ECO activities, approving planned and actual spending and savings on energy conservation while the Commission oversees cost recovery and the ECO financial incentive.

X. Decision Options

Acceptance

1. Accept the petition of Xcel Energy for authority to increase rates as being in proper form and substantially complete as of October 31, 2025. [Xcel Energy, Department, OAG, CUB]

Or

2. Reject the petition of Xcel Energy for authority to increase rates as not being in proper form and substantially complete.

Withdrawal of the Rate Case

3. If the Commission approves Xcel's Stay-Out Proposal in docket G-002/M-25-403, require Xcel to withdraw this filing.

If this filing is accepted as being in proper form and substantially complete as of a certain date (DO 1), then the Commission should also decide the following:

Suspension of Proposed Final Rates

4. Suspend the proposed final rates until the Commission makes its final determination in this matter by the 10-month statutory deadline of August 31, 2026.

Or

5. Find the Commission has insufficient time to make a final determination within a 10-month period because of the need to make final determinations in other pending cases involving changes in general rates. Accordingly, suspend the proposed rates in this case for an additional 90 days, until November 26, 2026. [Xcel Energy, Department, OAG, CUB]

Or

6. Do not suspend the proposed rates.

If the Commission suspends the proposed final rate, then the Commission should also decide the remaining items:

Referral of this Matter to the Office of Administrative Hearings for a Contested Case Proceeding

7. Refer the matter to the Office of Administrative Hearings for a contested case proceeding.

If the Commission adopts DO 3:

8. Request the ALJ's report within eight months of the filing's completeness date (e.g., on or before June 31, 2026). If the statutory deadline for the Commission's decision is extended beyond the normal ten months at any point during this proceeding for any reason (e.g., settlement discussions, waiver, etc.), request the ALJ's report at least three months before the extended deadline for the Commission's decision.

Or, if the Commission adopts DO 4:

9. Request the ALJ's report on or before August 25, 2026. If the deadline for the Commission's decision is extended beyond ten months plus ninety days at any point during this proceeding for any reason (e.g., settlement discussions, waiver, etc.) request the ALJ's report at least three months before the extended deadline for the Commission's decision.

And

10. Identify issues requiring development of a complete record in this case.
 - A. The standard rate case issues;⁶⁹
 - B. Whether the base cost of gas proposed in Docket No. G-002/MR-25-357 needs to be updated;
 - C. Reasons for the significant changes of the following costs since the last rate case:
 - Cost of Gas - Increased by 24.1%
 - Gas Distribution - Increased by 30.2%
 - Distribution – Increased by 31.5 %
 - Customer Service – Increased by 28.7%
 - Administrative & General – Increased by 25.4%
 - Depreciation – Increased by 24.3%
 - Amortization – Increased by 410.5%
 - Property Tax– Increased by 57.8%
 - D. Whether the proposed Top Ten executive pay compensation is appropriate.

⁶⁹ The standard rate case issues are: 1) Is the test year revenue increase sought by the Company reasonable or will it result in unreasonable and excessive earnings by the Company? 2) Is the rate design proposed by the Company reasonable? and 3) Are the Company's proposed capital structure and return on equity reasonable? Notice and Order for Hearing, In the Matter of the Application of Minnegasco, a Division of NorAm Energy Company, for Authority to Increase Natural Gas Rates in Minnesota, Docket No. G-008/GR-95-700, p. 3, October 4, 1995.



- E. As Xcel adopts an electrification-first focus to 2030, How does the company expect the new strategy to maintain its alignment with its goal to be a net-zero energy provider by 2050? What the cost recovery mechanisms or rate design changes are being considered to support long-term investment in electrification infrastructure?
- F. With greater than expected use of Efficient Fuel Switching(EFS), what adjustments are being made to reflect potential revenue shifts, stranded asset risks, changes in cost allocations, or other financial impacts?

Request for Specialized Technical Services

- 11. Request that the Department seek authorization under Minn. Stat. § 216B.62 from the Commissioner of Management and Budget to incur costs for specialized technical professional investigative services to develop and evaluate the record on the Company's rate case, including but not limited to, proposal to include in rate base its prepaid pension asset and its accrued retiree medical and post-employment benefit liability [Department]

Effective Date of Interim Rates

- 12. Authorize Xcel Energy to implement interim rates for service rendered on and after December 31, 2025 (sixty days after the filing date of the Company's petition). [Xcel Energy, Department, OAG, CUB]

And

- 13. Authorize Xcel Energy to waive its right under the interim rate statute to put interim rates into effect on December 31, 2025, and authorize Xcel Energy to implement interim rates for service rendered on and after January 1, 2026. [Staff]

Interim Rate Increase (Financial)

- 14. Approve an annual interim rate revenue deficiency of \$51.47 million, or 6.8%. [Xcel Energy]

Or

- 15. Find that exigent circumstances exist and set interim rates no higher than the \$46.3 million identified in Xcel's Stay-out Petition. [OAG]

Or

- 16. Find that exigent circumstances exist, and limiting the residential customers interim rate increase to \$16.2 million (50% of the requested amount), resulting in a total interim rate increase at approximately \$35.27 million. [Department]



Or

17. Find that exigent circumstances exist and reduce the annual interim rate increase by 50% of Xcel Energy's overall request, resulting in a total interim rate increase at approximately \$25.74 million. [CUB]

And, if the Commission adjusts the level of interim rates proposed by the Company:

18. Require Xcel Energy to file revised financial schedules and calculations (interim rate base, income statement, cost of capital, and revenue summary) and class revenue schedules reflecting the Commission's modifications within five calendar days of the Commission meeting. [Staff]

Interim Rates (Capital Structure & Cost of Capital)

19. Approve Xcel Energy's proposed interim cost of capital for setting interim rates. [Xcel Energy]

Interim Rates (Rate Design)

20. Approve Xcel Energy's request to collect the approved interim rate increase as a uniform percent interim rate adjustment to the base rate portion of customer bills, (i.e., basic service charge, delivery charge, and demand charge). Require the Company to display the interim rate increase on customer bills using a single, line-item interim rate adjustment. [Xcel Energy]

Or, if the Commission modifies the Company's proposed interim rates level:

21. Authorize the Company to collect the revised interim rate increase as a uniform increase to the base rate portion of customers' bills, consistent with the Xcel Energy's proposed methodology except as modified herein. Require the Company to display the interim rate increase on customer bills using a single, line-item interim rate adjustment. [Staff]

And,

22. Approve Xcel Energy's request to forgo collection of the interim rate increase from its negotiated transportation service customers, and to not seek recovery of the difference from its other customers. [Xcel Energy]

Administrative & Compliance Issues

23. In the Notice of and Order for Hearing, require the following:
 - A. The Company shall mail copies of the order resulting from this decision to all municipalities, counties, and local governing bodies in its Minnesota service area.



- B. The Administrative Law Judge shall convene public hearings in this matter at locations within the service area of the Company.
- C. The Company shall file draft notices of the evidentiary and public hearings, file them for Commission approval, and, after receiving approval, disseminate them as follows:
 - i. Individual written notice to each customer, which may be in the form of a bill insert, to be served at least ten days before the first day of hearings.
 - ii. Written notice to the governing bodies of all municipalities, counties, and local governing bodies in the area affected and to all parties in the Company's last two rate cases, to be mailed at least ten days before the first day of hearings.
 - iii. Advertisements in legal newspapers of affected counties and other newspapers of general circulation within the Company's Minnesota service area, to appear at least ten days before the first day of hearings. These advertisements shall include the heading **RATE INCREASE NOTICE**, which shall appear in bold face type no smaller than 30 points.

And

- 24. In the Order Setting Interim Rates, require the following:
 - A. The Company shall file with the Commission and the Department interim rate tariff sheets and supporting documentation reflecting the decisions herein. The Company's filing shall also include the notice to customers, approved by the Executive Secretary, regarding the rate change under the interim rate schedule.
 - B. The Company shall maintain such records of sales and collections under interim rates as would be necessary to compute a potential refund. Any refund shall be made within 120 days of the effective date of the Commission's final order in a manner approved by the Commission.
 - C. The Company shall include with each customer's first bill under the interim rate schedule a notice of the rate change, approved by the Executive Secretary. Upon completion of this task, the Company shall certify this fact to the Commission.
 - D. The Company shall maintain records of Energy Conservation and Optimization (ECO) Program costs and collection through the interim period so that it can be ascertained that recoveries dedicated to the ECO program are properly recorded. [Staff]..

**Delegation of Authority**

25. Delegate authority to approve notices, bill inserts, and bill format to the Commission's Executive Secretary for the duration of this proceeding. [Staff]
26. Delegate authority to the Executive Secretary to extend deadlines and modify timelines throughout the duration.
27. Order Xcel to notify its customers by email of its proposed rate increase and provide them a live link providing instructions on how to file public comments on the rate case. [CUB]