

**BEFORE THE MINNESOTA OFFICE OF
ADMINISTRATIVE HEARINGS**

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**FOR THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF MINNESOTA**

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

PUC Docket No. E002/GR-24-320
CAH Docket No. 28-2500-40515

**EXCEPTIONS TO THE FINDINGS OF FACT, CONCLUSIONS OF LAW,
AND RECOMMENDATIONS OF THE ADMINISTRATIVE LAW JUDGE
SUBMITTED BY THE XCEL LARGE INDUSTRIALS**

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Attachment A: Redline to the ALJ Report

The following constitutes the Exceptions to the Findings of Fact, Conclusions of Law and Recommendations of the Administrative Law Judge (“ALJ”) in this matter dated April 29, 2026 (the “ALJ Report”) of BOMA Greater Minneapolis; Flint Hills Resources Pine Bend, LLC; Marathon Petroleum Corporation; and USG Interiors, Inc. (collectively, the “Xcel Large Industrials” or “XLI”).¹

I. INTRODUCTION

The current electric rates for C&I Demand customers, which are 13% above the national average, have exacerbated the need to scrutinize the Company’s multi-year rate plan (“MYRP”). If approved, Northern States Power d/b/a Xcel Energy’s (“NSP” or “the Company”) rates would increase by \$490.7 million, or 13.2%, increase over the MYRP. XLI has provided substantial record evidence in this proceeding demonstrating the drivers of uncompetitive C&I rates on the Company’s system, related to the three global issues encompassed in any general rate case: revenue requirement (i.e., how big the rate increase should be), revenue allocation (i.e., which customer classes pay for that rate increase), and rate design (i.e., how rates are designed to recover the costs allocated to each class). XLI appreciates the efforts of the ALJ in attempting to resolve numerous issues in a very complex case. Several aspects of the ALJ Report are well-reasoned and thorough, including the ALJ’s Recommendations related to (1) preservation of the Company’s 15% Annual Incentive Plan (“AIP”) cap, (2) disallowance of recovery of long-term incentive (“LTI”) compensation, (3) rejection of the Department of Commerce’s (“Department”) proposal to adjust the remaining lives for the Sherco 3 and King plants, and (4) its decision to give significantly less weight to the Peak & Average Method.² XLI also does not oppose the ALJ’s recommendation to initiate a proceeding to examine Xcel’s executive compensation and suggests any such proceeding evaluate whether it is appropriate for an earnings per share target to be a

¹ XLI is an *ad hoc* consortium of Commercial and Industrial Demand (“C&I” or “C&I Demand”) customers served by Northern States Power Company d/b/a Xcel Energy (“Xcel” or the “Company”). These Exceptions are filed pursuant to the Notice of Schedule for Filing Exceptions to the ALJ’s Report and Request for Xcel Energy to File Schedules Reflecting the ALJ’s Recommendation (Apr. 5, 2023) (eDocket No. 20234-194530-01).

² Findings of Fact, Conclusions of Law, and Recommendations at 94, P 594 (Apr. 29, 2026) (“ALJ Report”) (recommending rejection of Xcel’s proposal to increase its AIP cap); ALJ Report at 91, P 578 (recommending disallowance of LTI recovery); ALJ Report at 56, P 339 (rejecting the Department’s proposal to adjust the remaining lives of Sherco 3 and King plants); ALJ Report at 168, P 1055.

threshold issue for incentive compensation. Nonetheless, XLI does not agree with each of the ALJ's recommendations, specifically where it believes that record evidence was overlooked. Therefore, XLI submits these exceptions to clarify its position and offer reasonable modifications to the ALJ Report that are supported by the record. The issues XLI will address in these exceptions are as follows: revenue requirement issues and the Company's proposed capital structure; Class Cost of Service Study ("CCOSS") analyses; revenue allocation issues; and rate design issues. Additionally, as part of these exceptions, XLI will provide brief background to frame the facts and context that underlie this rate case. XLI also provides as Attachment A suggested modifications to the ALJ Report based on the arguments and issues raised herein.

II. ANALYSIS

A. Background

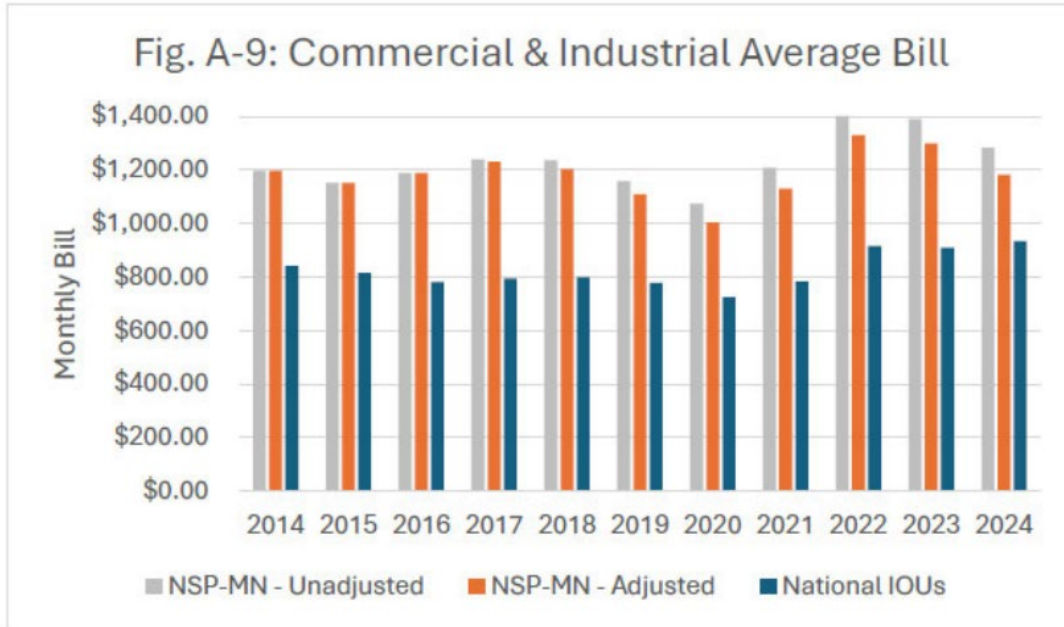
The Company has sought Commission approval of and implemented continual annual rate increases that have perpetuated an unsustainable environment for C&I customers. XLI provided substantial and undisputed evidence in this proceeding that C&I rates exceed the national average. In fact, the Company admits that "the NSP Minnesota industrial rate for 2024 is about 18 percent above the national average."³ Looking at bills, the Company testified that "[c]ustomers seem to care most about the total bill,"⁴ and Company Witness Paluck agrees that beginning in 2014 through 2024, the Company's bills for C&I customers have been above the national average.⁵ This phenomenon is reflected in XLI-10's Attachment A, pg. 3 of 3, and reproduced as Table 1 below.

³ Hearing Transcript ("Tr.") Vol. 1 at 23:18-25 (Liberkowski).

⁴ Tr. Vol. 1 at 31:13-18 (Liberkowski).

⁵ Tr. Vol. 1 at 264:3-15 (Paluck) (citing XLI-10, which is *In the Matter of Commission Inquiry into Xcel Energy's Advanced Rate Design for Load Management*, Docket No. E002/CI-24-115, Compliance Filing (Mar. 31, 2025) (20253-217029-01) (showing average rates for retail, residential, and C&I customers)).

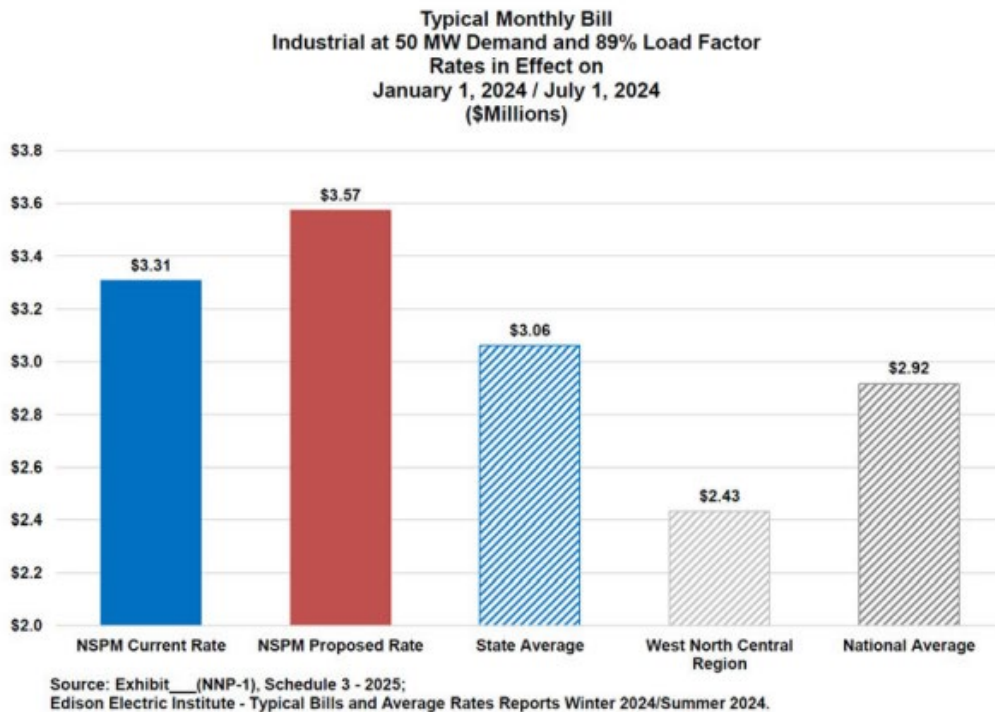
Table 1: Comparison of NSP-MN and National C&I Average Bills



In reviewing the Company’s proposals, XLI Witness Ly prepared a similar analysis, focused on customer bills. This analysis compares NSP Residential bills (Schedule 6) and NSP C&I bills (Schedule 7) to the typical monthly bills for Residential and C&I bills across the state, region, and nation.⁶ Schedules 6 and 7 demonstrate that the Company’s as-filed request, if approved, would exacerbate the situation, driving costs for industrial customers from 13% to 22% above the national average.⁷ Schedule 7 is reproduced below as Table 2 in this brief.

⁶ Ex. XLI-3 at Schedules 6, 7 (Ly Direct).

⁷ Ex. XLI-3 at 32:13-17 (Ly Direct).

Table 2: Comparison of NSP-MN and State, Regional and National C&I Average Bills

NSP's existing rates defy state energy policy and affordability goals,⁸ and approving the Company's MYRP would only exacerbate exorbitant electric rates, and gravely impact C&I Demand customers by putting them at a competitive disadvantage and increasing interclass subsidies through the Company's proposed revenue allocation.⁹ The results of Table 2 above demonstrate the magnitude of the potential impacts of the significant increases contemplated by this MYRP. Unfortunately, the ALJ's revenue allocation proposal does not adequately address the non-competitive nature of the Company's electric rates for all customer classes. Additionally, several factors contribute to the excess growth of the Company's rate base, including unreasonable additions to its revenue requirement, the use of an outdated methodology underlying the Company's CCOSS, and revenue allocations that move customers away from cost and exacerbate interclass subsidies. While XLI proposed several mitigation measures to counter these proposals,

⁸ E.g., Minn. Stat. § 216C.05, subd. 2(4).

⁹ Ex. XLI-3 at 31:1-16 (Ly Direct).

the ALJ Report overlooked important considerations and declined to adopt several of XLI's well-reasoned and supported recommendations.

B. Legal Standards

1. The Company Bears the Burden to Justify Revenue Requirement Issues.

In reviewing a general rate increase proposal, the Commission exercises two facets of its administrative authority: quasi-judicial capacity and quasi-legislative capacity. In its quasi-judicial capacity, the Commission acts on purely factual matters and weighs evidence in the same manner as a district court, requiring facts to be proved by a preponderance of the evidence.¹⁰ In its quasi-legislative capacity, the Commission acts on issues involving policy judgments, balancing competing interests and policy goals to arrive at the resolution most consistent with the broad public interest.¹¹ Specific to general rate case issues, the Commission acts in its quasi-judicial capacity when making its determination with respect to the revenue requirement, and acts in its quasi-legislative capacity when making determinations with respect to revenue allocation and rate design.¹² Despite the various administrative functions the Commission utilizes when reviewing a proposed change in rates, the Company's burden of proof remains constant and never shifts to other parties.

The Company bears the burden to demonstrate its rate case proposals are reasonable.¹³ "Every rate made, demanded, or received by any public utility ... shall be just and reasonable. ... Any doubt as to reasonableness should be resolved in favor of the consumer."¹⁴ The Minnesota

¹⁰ *In the Matter of the Application of Otter Tail Power Company for Authority to Increase Rates for Electric Service in the State of Minnesota*, PUC Docket No. E-017/GR-20-719, Findings of Fact, Conclusions, and Order at 3-4 (Feb. 1, 2022) ("Otter Tail Power Rate Case Order").

¹¹ *In the Matter of the Application of Northern States Power Company for Authority to Increase Rates for Electric Service in the State of Minnesota*, Docket No. E-002/GR-12-961, Findings of Fact, Conclusions, and Order at 5 (Sept. 3, 2013).

¹² *St. Paul Area Chamber of Com. v. Minn. Pub. Serv. Comm'n*, 251 N.W.2d 350 (Minn. 1977).

¹³ Minn. Stat. § 216B.16, subd. 4 ("The burden of proof to show that the rate change is just and reasonable shall be upon the public utility seeking the change.").

¹⁴ Minn. Stat. § 216B.03.

Supreme Court described the Commission’s role in determining just and reasonable rates in a rate proceeding by stating:

[I]n the exercise of the statutorily imposed duty to determine whether the inclusion of the item generating the claimed cost is appropriate, or whether the ratepayers or the shareholders should sustain the burden generated by the claimed cost, the MPUC acts in both a quasi-judicial and a partially legislative capacity. To state it differently, in evaluating the ... case[,] the accent is more on the inferences and conclusions to be drawn from the basic facts (i.e., amount of claimed costs) rather than on the reliability of the facts themselves. Thus, by merely showing that it has incurred, or may hypothetically incur, expenses, the utility does not necessarily meet its burden of demonstrating that it is just and reasonable that the ratepayers bear the costs of those expenses.^[15]

This emphasized portion of this longstanding Minnesota Supreme Court precedent is more relevant amid persistent rate increases, both inside and outside of general rate cases. Building on the language in *Northern States Power* and related precedent, the Commission has made clear that when prosecuting a rate case

[u]tilities seeking rate changes must ... prove not only that the facts they present are accurate, but that the costs they seek to recover are rate-recoverable, that the rate recovery mechanisms they propose are permissible, and that the rate design they advocate is equitable, under the “just and reasonable” standard set by statute.^[16]

The CenterPoint Order also recognizes that this burden is only met when a utility can demonstrate reasonableness by a preponderance of the evidence.¹⁷ This standard is a high burden, that the

¹⁵ *In re Petition of N. States Power Co.*, 416 N.W.2d 719, 722-23 (Minn. 1987) (emphasis added).

¹⁶ *In the Matter of the Application of CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Minnesota Gas for Authority to Increase Natural Gas Rates in Minnesota*, PUC Docket No. G-008/GR-15-424, Findings of Fact, Conclusions, and Order at 4 (June 3, 2016) (emphases added) (the “CenterPoint Order”) (emphasis added); *see also St. Paul Area Chamber of Com.*, 251 N.W.2d 350.

¹⁷ CenterPoint Order at 5 (citing *In re Minn. Power & Light Co.*, 435 N.W.2d 550, 554 (Minn. App. 1989)).

utility always retains,¹⁸ and one that is different from a civil case. The Supreme Court has previously explained this distinction as follows:

The “weighing” by [a] court in a civil case applying the “fair preponderance” standard involves a determination by the court whether the proponent of the conclusion has produced sufficient credible evidence to sustain that conclusion. In contrast, the task of the MPUC is not so much concerned with the sufficiency and credibility of the evidence, as it is concerned with whether the evidence submitted, even if true, justifies the conclusion sought by the petitioning utility when considered together with the Commission’s statutory responsibility to enforce the state’s public policy that retail consumers of utility services shall be furnished such services at reasonable rates.^[19]

This authority solidly demonstrates that the Company bears the burden to, first, establish the amount of a given cost as a judicial fact,²⁰ and second, establish that it is just and reasonable for ratepayers (as opposed to the Company’s shareholders) to bear those costs.²¹ The Commission may disallow aspects of the Company’s proposed rate increase, even if based on costs that have been or may be incurred by the Company, if the Commission determines that the record supports Company shareholders bearing those costs.

¹⁸ *In the Matter of a Commission Investigation into Xcel Energy’s Monticello Life-Cycle Management/Extended Power Uprate Project and Request for Recovery of Cost Overruns*, PUC Docket No. E-002/CI-13-754, Order Finding Imprudence, Denying Return on Cost Overruns, and Establishing LCM/EPU Allocation for Ratemaking Purposes, at 12-13, 13 n.20 (May 8, 2015) (citing Minn. Stat. § 216B.16, subd. 6).

¹⁹ *In re Petition of N. States Power Co.*, 416 N.W.2d at 722 (emphasis added).

²⁰ *Id.*

²¹ *Id.* at 723 (finding that “by merely showing that it has incurred, or may hypothetically incur, expenses, the utility does not necessarily meet its burden of demonstrating that it is just and reasonable that the ratepayers bear the costs of those expenses”).

C. Revenue Requirement Issues

1. The Commission Should Reject the ALJ’s Findings and Recommendations on Return on Equity.

a. The ALJ Did Not Properly Apply the Legal Standard for ROE.

When determining the appropriate return on equity (“ROE”) in a general rate case, the Commission may follow supreme court guidance from decisions in *Bluefield Waterworks & Improvement Co. v. Public Service Commission of West Virginia*²² (“*Bluefield*”) and *Federal Power Commission v. Hope Natural Gas Co.*²³ (“*Hope*”) that establish the appropriate principles for determining a fair and reasonable ROE.

Bluefield addresses how to define a reasonable return, concluding that

[t]he return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties.^[24]

“Reasonableness,” “sufficient,” and “adequate” are also terms used in Minnesota law, which directs the Commission to consider

the need of the public utility for revenue sufficient to enable it to meet the cost of furnishing the service, including adequate provision for depreciation of its utility property used and useful in rendering service to the public, and to earn a fair and reasonable return upon the investment in such property.^[25]

Neither of the above decisions, nor Minnesota law, direct the Commission to bestow on investors above-average returns. In fact, the *Bluefield* court stated an investor-owned utility “has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures.”²⁶ Rather, utilities are entitled to an opportunity to earn a return

²² 262 U.S. 679 (1923).

²³ 320 U.S. 591 (1944).

²⁴ *Bluefield*, 262 U.S. at 693 (emphasis added).

²⁵ Minn. Stat. § 216B.16, subd. 6 (emphasis added).

²⁶ *Bluefield*, 262 U.S. at 692-93.

commensurate with risk, which the Company has acknowledged.²⁷ While the ALJ Report appropriately acknowledged the precedential value of the *Bluefield* and *Hope* decisions,²⁸ and correctly noted that the two-growth discounted cash flow (“DCF”) methodology is the most reliable method for determining the appropriate ROE,²⁹ the ALJ Report overlooked several important factors the Commission should consider when making its ROE determination. The Commission has acknowledged that “a broad range of ... factors must be considered when determining an appropriate ROE.”³⁰ Above all, determining an ROE requires consideration of several factors (financial and non-financial):

the need of the public utility for revenue sufficient to enable it to meet the cost of furnishing the service, including adequate provision for depreciation of its utility property used and useful in rendering service to the public, and to earn a fair and reasonable return upon the investment in such property.³¹

The Company’s testimony and briefing in this proceeding acknowledges that, consistent with state law, case law directs the ALJ and Commission to allow for a cost of capital that is:

- Adequate to allow the Company to attract the capital necessary to provide safe and reliable service;
- Sufficient to ensure the Company’s ability to maintain its financial integrity; and
- Comparable to returns on investments in other enterprises having similar risk (i.e., fair and reasonable).³²

The Company is thus aware of its burden to establish a sufficient, adequate, and fair and reasonable ROE.³³

²⁷ See Ex. XLI-2 at 17:6-9 (LaConte Direct); Ex. Xcel-24 at 42:19-21 (Nowak Rebuttal).

²⁸ ALJ Report at 124, PP 885-87.

²⁹ ALJ Report at 154, P 973.

³⁰ *In the Matter of the Application of Minnesota Power for Authority to Increase Rates for Electric Service in Minnesota*, PUC Docket No. E015/GR-16-664, Findings of Fact Conclusions, and Order at 60 (Mar. 12, 2018).

³¹ Minn. Stat. § 216B.16, subd. 6 (emphasis added).

³² NSP Initial Br. at 17 (citing Xcel-24 at 7-13 (Nowak Direct)) (emphasis added).

³³ NSP Initial Br. at 19.

Contrary to this acknowledgement by the Company and statutory directive, the ALJ Report derives its ROE recommendation on a narrow set of financial analyses, considering only the formulaic two-growth DCF analyses supported by the Company and the Department.³⁴ To be sure, there was no evidence offered by the Company or the Department that the Company's current authorized ROE of 9.25% has been insufficient to maintain its very high credit rating. The failure to account for this and other relevant facts render the ALJ's recommended ROE as fundamentally flawed, which demonstrates that a materially lower ROE (i.e., 8.96%) would strike the appropriate balance and permit the Company to achieve record profits without compromising its financial integrity, while simultaneously ensuring just, reasonable, and affordable rates for customers in accordance with the guiding standards set forth in *Hope* and *Bluefield*.

b. The ALJ's Criticisms of XLI's ROE Recommendation Are Unfounded and the ALJ's Recommended ROE is Unsupported by the Record.

While XLI acknowledges and appreciates the ALJ Report's detailed and careful review of the record, it respectfully objects to the Report's ROE recommendation, one that is unsupported by, and contrary to, the weight of the evidence. The ALJ Report recommends an ROE of 9.8%, which it contends would balance the national average authorized ROE for vertically integrated electric utilities, represent a compromise between the Department's multi-stage DCF analysis and the Company's Two-Growth DCF analysis, and appropriately address the Company's risk levels.³⁵ The ALJ Report states that "[t]he Commission has traditionally relied on DCF analyses in determining the allowed ROE. Specifically, the Commission has long relied on either Constant Growth DCF or Two-Growth DCF models, with consistent preference for the Two-Growth DCF for over the past decade."³⁶ The ALJ Report recommends that the Commission should primarily rely on the Two-Growth DCF model in setting the ROE here.³⁷ In so doing, the ALJ Report entirely disregards the Two-Growth DCF analysis conducted by XLI.³⁸ To support its reasoning,

³⁴ ALJ Report at 155, P 975.

³⁵ ALJ Report at 158-59, P 994.

³⁶ ALJ Report at 154, P 971.

³⁷ ALJ Report at 154-75, P 973.

³⁸ ALJ Report at 155, P 974.

the ALJ Report states only that “XLI’s Two-Growth DCF Model differed from versions of the model previously relied on by the Commission incorporating GDP growth rates,” but does not acknowledge that these differences introduce necessary nuance into the ROE determination that the Commission has previously considered.

XLI emphasizes its exception to the ALJ’s implicit characterization that XLI applied a novel form of the Two-Growth DCF analysis, relying on Company testimony.³⁹ NSP’s, and the ALJ’s, attempt to characterize Witness LaConte’s analysis as “far removed” from Commission practice was squarely addressed in Witness LaConte’s surrebuttal testimony. There, she testified

Q Please comment on Mr. Nowak’s claim that your two-stage DCF analysis is not in conformance with the Commission’s preferred methodology.

A. My two-stage DCF analysis is similar to the Federal Energy Regulatory Commission’s (FERC’s) two-step methodology. Using the Commission’s two-stage DCF methodology produces a 10.37% ROE, which is in the range of my DCF results (8.29% - 11.84%). The calculations of a 10.37% ROE are provided in my Surrebuttal **Schedule 1**.

Q Why did you use the FERC two-step methodology?

A I used the FERC two-step methodology because it is more common across the country. However, using the Commission’s methodology demonstrates that the results of my DCF analyses are reasonable.^[40]

Blending commentary on the multi-stage DCF and two-stage DCF, the ALJ accepted the Company’s assertion that the Commission “has never incorporated a long-term GDP growth rate into the analysis.”⁴¹ As was established during cross-examination, Witness Nowak’s quote of the Commission’s order from the last rate case on page 71 of his rebuttal testimony allegedly supporting this assertion was, in fact, the Commission summarizing the ALJ’s recommendation to adopt a 9.87% ROE—not the Commission’s decision to adopt a 9.25% ROE.⁴² Here again, the ALJ should have disregarded the Company’s arguments—yet the ALJ regrettably did the opposite.

³⁹ ALJ Report at 152, P 956 (citing Xcel-25 at 71-72 (Nowak Rebuttal))

⁴⁰ Ex. XLI-8 at 5:10-21 (LaConte Surrebuttal).

⁴¹ NSP Initial Br. at 33 (citing Ex. Xcel-25 at 71 (Nowak Rebuttal)).

⁴² Tr., Vol. 1, 62:11-65:3; 66:3-9.

The ALJ's error on this point is compounded by his review of the record. Despite XLI's evidence that the Company operates with reduced risk due to its plethora of adjustment clauses, its sales true-up, its projected test-year, and the MYRP, the ALJ claims that XLI overstates the Company's reduced risk levels as compared to the proxy group, stating that "of the companies in Xcel's proxy group, 47 percent allow fully- or partially-forecasted test years, 52 present [*sic*] have full or partial decoupling mechanisms, and 82 percent have cost recovery mechanisms for capital adjustments."⁴³ The ALJ Report appears to ignore that of all 58 companies in the proxy group, only seven other companies held the same number of adjustment clauses (6+) as NSP. The fact that other proxy group members allowed "fully- or partially-forecasted test years," "full or partial decoupling mechanisms," and "cost recovery mechanisms for capital adjustments" has no bearing on the impact that the number of adjustment clauses the Company employs has on its risk profile.

Moreover, the Company's briefing papers, and consequently the ALJ Report, focus heavily on the financial component of ROE, as did the Company, overlooking what is adequate to attract capital and sufficient to maintain financial integrity, the first two factors NSP acknowledges must be considered as part of an ROE analysis.⁴⁴ Intervenors in this proceeding, including XLI, have presented substantial evidence demonstrating that factors beyond purely financial comparability considerations, like the Company's ability to attract capital and maintain financial integrity, should be included in this analysis.

To be sure, NSP admitted it has had no difficulty accessing capital with its existing ROE of 9.25%. Company Witness Nowak's testimony that investors had a negative perception from the Commission's 9.25% ROE determination in the last rate case, is inconsistent with the reality that investors continued to invest in NSP despite any "negative perception." The Company acknowledged that "NSP has not experienced difficulties accessing capital markets since its last litigated base rate case."⁴⁵ In other words, an ROE of 9.25% has been at least adequate (if not more than adequate) in allowing NSP to access capital. In fact, NSP reported record profits this year with an 9.25% ROE. As stated in the Department's Initial Brief,

⁴³ ALJ Report at 156-57, P 987.

⁴⁴ NSP Initial Br. at 19.

⁴⁵ Ex. XLI-8 at 9:12-10:1 (LaConte Surrebuttal) (citing NSP Response to XLI IR No. 40).

[b]etween 2010 and 2024, XEI’s earnings per share attributable to NSPM increased 135%. And most recently from 2023 to 2024, Xcel similarly saw its net income increase approximately \$220 million. Then in October 2025, just as Xcel was claiming to the Commission it faced “substantial risk” in connection with its 2026 interim revenue deficiency, its stock reached a record high of \$83 per share.⁴⁶

Finally, the evidence shows an ROE of 8.96% would not negatively impact the Company’s financial integrity. Here again, Witness LaConte refuted Witness Nowak’s testimony. As shown in Tables 3 and 4 below, an ROE of 8.96% would allow the Company to stay within the rating agency guidance for all of the metrics used.

Table 3: NSPM’s Credit Metrics – S&P Methodology

Table 1 NSPM’s Credit Metrics – S&P Methodology Using 8.96%, 9.2%, and 9.5% ROE					
Description	9.2% ROE	9.5% ROE	Delta	8.96% ROE	S&P Guidance
FFO/Debt	[TRADE SECRET DATA BEGINS...]	[REDACTED]	[REDACTED]	[REDACTED]	13% - 23%
Debt/EBITDA	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	3.5 - 4.5
FFO/Interest	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	3 - 5
EBITDA/Interest	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]..TRADE SECRET DATA ENDS]	2.75 - 5
Source: NSPM Response to XLI-33 Attachment A (Trade Secret); Direct Testimony of Todd A. Wehner, Exhibit TAW-1, Schedule 11 at 1.					

⁴⁶ Department Initial Br. at 8 (footnotes omitted); CUB Reply Brief at 18 (“the Company’s ability to attract capital; that Xcel Energy, Inc’s stock price has since increased to an all-time record high”).

Table 4: NSPM's Credit Metrics – Moody's Methodology

Table 2 NSPM's Credit Metrics – Moody's Methodology Using 8.96%, 9.2%, and 9.5% ROE					
Description	9.2% ROE	9.5% ROE	Delta	8.96% ROE	Moody's Guidance
CFO pre-WC/Debt	[TRADE SECRET DATA BEGINS...]	[REDACTED]	[REDACTED]	[REDACTED]	22% - 30%
CFO pre-WC + Interest/Interest	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	4.5-6
CFO pre-WC-Dividends/Debt	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	17% - 25%
Debt/Book Capitalization	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]. TRADE SECRET DATA ENDS]	33% - 45%

Source: NSPM Response to XLI-33 Attachment A (Trade Secret); Direct Testimony of Todd A. Wehner, Exhibit TAW-11, Schedule 11 at 2.

Based on this analysis, Witness LaConte testified that NSP's "credit metrics would still fall within the recommended ranges if the Commission authorizes my recommended 8.96% ROE."⁴⁷ This testimony should be given weight because similar testimony from Witness LaConte in the Company's last rate case proved correct⁴⁸—Witness LaConte's prediction that NSP would be able to attract capital at 9.17% (which was 11 basis points higher than its previously authorized ROE) proved true. An ROE of 8.96% is sufficient to maintain the Company's financial integrity.

c. Concluding Remarks on ROE

XLI respectfully requests the Commission disregard the ROE analysis conducted in the ALJ Report as it does not fully consider the range of factors as required by statute, as well as the full scope of the evidentiary record in this proceeding. Contrary to what the ALJ Report states, insufficient evidence exists to determine that a ROE of 9.8% (a 55-basis point increase from the Company's current ROE) is appropriate, and that a lower ROE (as proposed by XLI) would harm the Company or have any adverse impact on its financial integrity. To the contrary, XLI has presented substantial evidence that an ROE of 8.96% would balance the Company's need to earn profit and maintain its financial integrity, while safeguarding ratepayers from rate shock and unsustainable rate increases.⁴⁹ The record evidence demonstrates that the Company's current ROE

⁴⁷ Ex. XLI-8 at 9:6-8 (LaConte Surrebuttal).

⁴⁸ Ex. Xcel-100 at 7:2-6 (Direct Testimony and Associated Errata of Billie S. LaConte in Docket No. 21-630).

⁴⁹ See XLI Initial Br. at 17-18.

sufficiently drives increased earnings for shareholders. Therefore, XLI maintains its recommendation that an 8.96% ROE for the Company is just and reasonable.

2. The ALJ Report’s Recommendations on Energy Supply and Transmission O&M Ignore Record Evidence of the Company’s Historic Over-Budgeting.

a. Energy Supply O&M

While the ALJ Report acknowledges that the Company’s over-budgeting in recent Energy Supply O&M budgets is “sufficiently significant to warrant further attention,” it antithetically recommends approval of the Company’s proposed Energy Supply O&M budget.⁵⁰ The Company’s proposal to recover Energy Supply O&M expenses totaling \$122.3 million and \$140.7 million in 2025 and 2026, respectively, is unreasonable and warrants adjustment based on its historical overstatement of these costs. The Company attempts to provide explanations for its continual overspending, which the ALJ Report erroneously finds to be “sufficiently reasonable and specific to meet its burden to prove it is entitled to recovery of its proposed Energy Supply O&M budget...”⁵¹ However, these reasons are immaterial here and overlook the burden of proof issue the Company bears that “by merely showing that it has incurred, or may hypothetically incur, expenses, the utility does not necessarily meet its burden of demonstrating that it is just and reasonable that the ratepayers bear the costs of those expenses.”⁵²

For example, the Company’s explanations do not address the more global issue about its historical trends in over-budgeting. Additionally, while the Company has provided reasons that its Energy Supply O&M expenses were lower than projected, that alone does not justify no reduction to its expenses. As described in XLI’s testimony ignored by the ALJ Report, the Company uses a projected test year when it sets rates, as opposed to a historical test year.⁵³ This method disadvantages customers as it can produce excessive rates and biased projections. Stated plainly, if actual costs are lower than projected, the Company benefits.⁵⁴ Applying that logic,

⁵⁰ ALJ Report at 71, P 452.

⁵¹ ALJ Report at 71, P 453.

⁵² *In re Petition of N. States Power Co.*, 416 N.W.2d 719, 722-23 (Minn. 1987) (emphasis added).

⁵³ Ex. XLI-8 at 13:22-23 (LaConte Surrebuttal).

⁵⁴ Ex. XLI-8 at 14:1-2 (LaConte Surrebuttal).

customers should benefit when a projected test year produces higher than projected O&M costs. However, that is not the case here because “although NSPM credited a portion of its overcollection in Energy Supply O&M costs to customers through the RES Rider, the reduced O&M cost (\$5.1 million) due to the delay in Sherco Solar I and II going into service was not recognized in the RES Rider.”⁵⁵ While the ALJ Report is concerned with ensuring the Company can recover reasonable costs, it is also important to acknowledge that the Company’s proposal needs to result in just and reasonable rates, not require customers to pay higher rates now and miss out on the opportunity to benefit from lower Energy Supply O&M expenses.

As XLI has explained, the Company has overstated its Energy Supply O&M expense by an average of about 4.3% over the past three years.⁵⁶ This overstatement amounts to an additional approximately \$14.7 million unnecessarily recovered from ratepayers.⁵⁷ The Company has only continued this trend in its current MYRP, and has not met its burden to demonstrate that its proposal is just and reasonable. The Commission should therefore reject the ALJ’s recommendations on this issue and approve reduced Energy Supply O&M costs consistent with XLI’s recommendation, resulting in a revenue requirement reduction of \$4.9 million in 2025 and \$5.7 million in 2026.⁵⁸

b. Transmission O&M

Additionally, regarding the Company’s Transmission O&M proposal, while the ALJ Report acknowledges that XLI has “put forward compelling evidence of a historical trend that suggests Xcel’s Transportation O&M budget is too high for 2025 and 2026,” it recommends rejection of XLI’s proposed reduction on the grounds that it would “inadequately compensate the Company” for its Transmission O&M expenses.⁵⁹ While the Company provides an explanation for why it has consistently overstated its expenses by an average of 16.2% over the last three years

⁵⁵ Ex. XLI-8 at 14:3-6 (LaConte Surrebuttal).

⁵⁶ See Ex. XLI-2 at 50:14, Table 12, NSPM Projected and Actual Energy Supply O&M Expense (LaConte Direct).

⁵⁷ Ex. XLI-2 at 51:1-11 (LaConte Direct).

⁵⁸ Compliance Filing – Financial Schedules (May 11, 2026) (eDocket No. 20265-231675-02).

⁵⁹ ALJ Report at 77, P 488.

(resulting in overcharges to customers amounting to \$11.4 million),⁶⁰ the issues discussed with regard to the Energy Supply O&M issue remain. Explaining why the Company has fallen short of budgeted projections does not serve as a justification for no reduction to its expenses. Again, “by merely showing that it has incurred, or may hypothetically incur, expenses, the utility does not necessarily meet its burden of demonstrating that it is just and reasonable that the ratepayers bear the costs of those expenses.”⁶¹

Here, the Department’s analysis of the Company’s explanation for spending below its budget showed that the actual Transmission O&M expenses “were still \$3.5 million below its forecast.”⁶² Further, the Company does not account for its use of a projected test year, meaning customers are adversely impacted if the utility employs a projected test year because it can produce excessive rates due to forecasting errors, or biased projections. The Commission should therefore reject the ALJ’s recommendations on this issue and approve reduced Transmission O&M costs consistent with XLI’s recommendation, resulting in a revenue requirement reduction of \$3.1 million in 2025 and \$3.1 million in 2026.⁶³

3. The ALJ Report Misunderstands the Magnitude of Concerns Regarding Billing and Customer Service, Resulting In Erroneous Allowance of Full Recovery of Customer Care Operations & Maintenance Expense.

The ALJ Report misdirects its analysis regarding the Company’s recoverable Customer Case O&M Expense by focusing on peripheral elements of this issue, compelling XLI to clarify the record. In declining to adopt XLI’s proposal for disallowance of these expenses, the ALJ Report states that the Company has attempted to identify the affected BOMA members but that “BOMA has not provided this information.”⁶⁴ A glaring omission by the ALJ Report is an acknowledgement that the Company *has* all of this information. The Company itself corresponded with BOMA members about these issues—it has the same, if not more, access to information about BOMA members’ complaints as BOMA itself. The ALJ Report proposes denial of XLI’s request

⁶⁰ Ex. XLI-2 at 52:7-10 (LaConte Direct)

⁶¹ *In re Petition of N. States Power Co.*, 416 N.W.2d 719, 722-23 (Minn. 1987) (emphasis added).

⁶² Ex. DOC-6 at 11 (Golden Surrebuttal).

⁶³ Compliance Filing – Financial Schedules (May 11, 2026) (eDocket No. 20265-231675-02).

⁶⁴ ALJ Report at 78, P 494.

to disallow the company's requested Customer Care O&M costs based on BOMA's purported failure to supply the names of impacted customers, characterizing disallowance of the expense as a "drastic remedy..."⁶⁵ XLI continues to believe that the appropriate response to the Company's egregious failures regarding billing and customer service is a disallowance of this expense. The Company's failures with regards to serving its customers should not go unpenalized—as customers of a monopoly, they cannot choose another provider under current law and should not be forced to accept the problems outlined in XLI's testimony. These include:

Many BOMA members have experienced significant billing delays. In addition, for some members, the billing information was incorrect. For example, one member received a bill at the end of the 2024 fiscal year requesting four months of electricity payments totaling over half a million dollars in one invoice. Another received an erroneous bill for \$37.4 million. In addition, on frequent occasions, NSPM billed BOMA members for two service periods in one month.⁶⁶

Furthermore, while the Commission determined it would be necessary to expand the scope of its investigation in Docket No. 25-341 to include C&I customers, NSP's recent compliance filing provides alarming data showing these issues are only increasing.⁶⁷ Table 4 of the Company's compliance filing shows that on average, more than double the number of C&I customers have been affected by controllable billing factors, such as cancelled invoices, in 2026 than in 2023.⁶⁸ In fact, the number of impacted customers has only grown year over year. The Company should not continue to receive the benefit of full recovery of this expense when it so egregiously fails to deliver basic customer service or correct bills. Thus, XLI continues to advocate for the disallowance of this expense from recovery.

⁶⁵ ALJ Report at 79-80, PP 498-99.

⁶⁶ Ex. XLI-2 at 60:2-7 (LaConte Direct); *see also*, BOMA Public Comment (June 7, 2025) (eDocket No. 20257-220649-01).

⁶⁷ *In The Matter Of An Investigation Into Xcel Energy's Residential Billing Errors*, Docket No. E,G002/CI-25-341, Compliance Filing – Monthly Update (Mar. 16, 2026) (eDocket No. 20263-229313-01) ("25-341 Compliance Filing").

⁶⁸ 25-341 Compliance Filing at 16.

4. The ALJ’s Recommendation on Excess Liability Insurance Overlooks Pertinent Evidence that Minnesota Ratepayers Are Subsidizing Costs in Other Jurisdictions.

The Company bears the burden of demonstrating that its excess liability insurance (“ELI”) request is reasonable, and it has failed to meet that burden here. The ALJ Report nevertheless concludes that the Company’s allocation is accurate, citing the reduced percentage of Excess Liability Premium costs assigned in the July 2025 forecast compared to the initial forecast—attributed to loss and wildfire loading provided by the Company’s brokers—as evidence that risk is being appropriately allocated among Xcel Energy, Inc.’s jurisdictions.⁶⁹ The ALJ also appears to rely on the assertion that neither the Department nor XLI disputed the type or amount of insurance coverage.⁷⁰ This reasoning, however, overlooks compelling record evidence submitted by XLI showing that the Company has not established that the Minnesota-jurisdictional portion of the ELI expense is properly allocated. The ALJ Report’s analysis ignores evidence presented by XLI that while the Minnesota-jurisdictional portion of the overall ELI expense has increased by 160%, the Company [TRADE SECRET DATA BEGINS... ██████████
██████████...TRADE SECRET DATA ENDS] since 2015. On the other hand, [TRADE SECRET DATA BEGINS... ██████████
██████████...TRADE SECRET DATA ENDS] causing XLI concern as to the primary driver of the increase ELI expense. The ALJ Report also appears to overlook the findings earlier in the report that “Xcel’s wildfire risk in Minnesota is low compared to wildfire risks nationally and Minnesota as a whole.”⁷¹ It is not unreasonable for XLI to express concern, based on these facts, that NSP customers are subsidizing costs from other jurisdictions. Again, “by merely showing that it has incurred, or may hypothetically incur, expenses, the utility does not necessarily meet its burden of demonstrating that it is just and reasonable that the ratepayers bear the costs of those expenses.”⁷² Moreover, any doubt as to reasonableness should be resolved in favor of the ratepayer. Minn. Stat. § 216B.03. On this record, the Company has not met its burden to demonstrate the Minnesota-jurisdictional portion of overall ELI expense results in just and reasonable rates. Customers should

⁶⁹ ALJ Report at 121, PP 763-64.

⁷⁰ ALJ Report at 121, P 762.

⁷¹ ALJ Report at 31, P 174 (citing Ex. DOC-9 at 3 (Borden Direct).

⁷² *In re Petition of N. States Power Co.*, 416 N.W.2d 719, 722-23 (Minn. 1987) (emphasis added).

only be responsible for their fair share of the ELI premium and should not shoulder increased ELI expenses due to wildfire activity in other territories in the country.⁷³ XLI continues to believe that NSPM customers should not have to subsidize customers in other jurisdictions.

5. The Recommendation on Recovery of Prepaid Pension Asset Should Align With Determinations Made in the Company's Previous Rate Case.

While not having addressed this issue in the course of this rate case, XLI feels compelled to offer input into the ALJ Report's recommendations with regard to prepaid pension asset ("PPA") considering it has participated repeatedly in NSP's last rate case docket on this issue, which remains ongoing.⁷⁴ The ALJ Report states that "[t]he Company is entitled to earn a return of some kind on the prepaid pension asset,"⁷⁵ without any acknowledgement that this is an open issue before the Commission in NSP's last rate case docket, Docket No. E002/GR-21-630, which parties have labored over for several years and across the appellate process. XLI does not believe the Company is entitled to utilize this rate case to receive a ruling on the issue of PPA in rate base, while the proceedings resulting from the remand on appeal remain ongoing and while the Company continually fails to demonstrate that shareholders alone fund its PPA (a prerequisite for recovery).⁷⁶ However, at the very least, the ALJ Report should be modified to acknowledge that this is an ongoing issue from NSP's last rate case, and that any decision made there should be carried over and apply to the instant rate case.

D. CCOSS Issues

The record includes substantial evidence from XLI demonstrating that CCOSSs using the stratification method should be rejected. By recommending that greater weight be assigned to those studies over AED-4CP-based analyses, the ALJ fails to address or meaningfully engage with

⁷³ Ex. XLI-2 at 57:5-10 (LaConte Direct).

⁷⁴ E.g., *In the Matter of the Application of Northern States Power Company d/b/a Xcel Energy for Authority to Increase Rates for Electric Service in the State of Minnesota*, Docket Nos. E002/GR-21-630, XLI Initial Comment Regarding PPA Remand (Mar. 10, 2026) (eDocket No. 20263-229109-02); PPA Remand Reply Comment (Apr. 7, 2026) (eDocket No. 20264-230121-02); Initial Comments (Apr. 7, 2025) (eDocket No. 20254-217341-02); Reply Comments (Apr. 15, 2025) (20254-217687-02).

⁷⁵ ALJ Report at 59, P 361.

⁷⁶ See *In the Matter of the Application of Northern States Power Company d/b/a Xcel Energy for Authority to Increase Rates for Electric Service in the State of Minnesota*, Docket No. E002/GR-21-630, XLI Initial Comment (Mar. 10, 2026) (eDocket No. 20263-229109-02).

XLI's evidence. Accordingly, the ALJ's recommendation should be revised to properly account for that evidence.

1. Stratification Is An Outdated Methodology Inappropriate For Developing a CCOSS.

The ALJ's support of the stratification methodology overlooks the substantial evidence XLI offered that demonstrates this methodology is obsolete. Consistent with other aspects of the Company's petition, the Company bears the burden of demonstrating its CCOSS is an appropriate starting point for designing just and reasonable rates. As described below, the ALJ's findings fail to establish how that burden was satisfied.

The Company offers no evidence to refute that the stratification methodology no longer functions as designed. As explained in XLI's testimony and briefing, stratification generally identifies plant investment incurred to provide capacity (i.e., demand-related) and investment that is a substitute for fuel costs (i.e., energy-related). Ideally, stratification should function such that high-load-factor customers (meaning those using more energy year-round) are allocated a proportionally larger share of fuel savings typically associated with the higher capital cost plants as a trade-off for being allocated a much higher percentage of production capital costs (i.e., "Capital Substitution").⁷⁷ However, the stratification method no longer functions in this way.⁷⁸ To demonstrate this disconnect, XLI Witness Ly developed Schedule 1 of his Direct Testimony, to compare the allocation of non-fuel production costs and the corresponding allocation of fuel purchased power expense. Schedule 1 is reproduced below as Table 5:

⁷⁷ Ex. XLI-3 at 9:11-13 (Ly Direct).

⁷⁸ Ex. XLI-3 at 9:13-14 (Ly Direct); *see* Ex. XLI-3 at Schedule 1 (Ly Direct).

Table 5: Comparison of Allocations of Non-Fuel Production Costs and Fuel Purchased Power Expense

NORTHERN STATES POWER COMPANY - MINNESOTA
Allocated Non-Fuel Production Costs
& Fuel and Purchased Power Expense
Test Year Ended December 31, 2025

Line	Customer Class	Non-Fuel Production Costs		Fuel and Purchased Power Expense	
		Cost	Percent	Cost	Percent
		\$/kW	Difference	\$/MWh	Difference
		(1)	(2)	(3)	(4)
1	Residential	\$489	-14.0%	\$43.68	2.1%
2	C&I Non-Demand	\$617	8.6%	\$43.15	0.8%
3	C&I Demand	\$594	4.5%	\$42.60	-0.5%
4	Lighting	NA	NA	\$35.85	-16.2%
5	NSPM Average	\$568	0.0%	\$42.80	0.0%

Source: MN CCOSS 2025.

If Capital Substitution were functioning as intended under stratification, classes allocated higher per kW non-fuel production costs via a properly designed demand allocator would benefit from the lower per MWh fuel and purchase power expense via a properly designed energy allocator. But as Table 5 demonstrates, little to no symmetry exists.⁷⁹ Notably, other regulatory jurisdictions have cited lack of fuel symmetry as the primary reason for rejecting production plant allocation methodologies like stratification.⁸⁰ Furthermore, no other regulatory jurisdiction currently mandates utilities under its purview to use stratification; conversely, several commissions have explicitly rejected the methodology (i.e., Michigan PSC, Florida PSC, PUC of Texas).⁸¹ None of

⁷⁹ Ex. XLI-3 at 9:16-20 (Ly Direct).

⁸⁰ Ex. XLI-9 at 9:22-10:2 (Ly Surrebuttal).

⁸¹ Ex. XLI-3 at 10:14-18 (Ly Direct); *In the Matter of the Application of DTE Electric Company for Authority to Increase its Rates, Amend its Rate Schedules and Rules Governing the Distribution and Supply of Electric Energy, and for Miscellaneous Accounting Authority*, Case No. U-20561, Proposal For Decision (Mar. 5, 2020) and Order at 220-221 (May 8, 2020); *Petition of Gulf Power Company for an increase in its rates and charges*, Docket No. 891345-EI, Order No. 23573 at 48 (Oct. 3, 1990); see e.g., *Application of Gulf States Utilities Company for a Rate Increase*, P.U.C. Docket No. 5560, 10 P.U.C. Bull. 405 (July 13, 1984); *Application of El Paso Electric Company for Authority to Change Rates et al.*, Docket No. 5700, 10 P.U.C. Bull. 1071 (Oct. 26, 1984; on modification Dec. 7, 1984); *Application of El Paso Electric Company for Authority to Change Rates and Application of El Paso Electric Company for Review of the Sale and Leaseback of Palo Verde Nuclear Generating Station Unit No. 2*, P.U.C. Docket Nos. 7460 and 7172, 14

this evidence is accounted for in the ALJ Report. Where stratification is no longer functioning as intended, it should not be used to develop the CCOSS on which customer responsibility for rates are determined.

By contrast, the AED-4CP methodology, which the Cost Allocation Manual of the National Association of Regulatory Utility Commissioners explicitly recognizes as considering energy usage in developing allocation factors, more appropriately reflects cost causation.⁸² The methodology recognizes two important cost factors: (1) off-peak loads do not drive a utility's capacity needs to the same degree as on-peak loads; and (2) very high-load-factor loads are quite flat, and have significantly lower variability than low-load-factor loads.⁸³ Unlike stratification, the AED-4CP methodology can recognize the company's generating fleet is operated as an integrated system, as the method "recognizes that load-following resources are an essential attribute of a reliable generation fleet and further, that certain customer classes require more load-following resources than other classes," a fact that becomes increasingly important as intermittent resources increasingly penetrate the grid.⁸⁴ Furthermore, several other jurisdictions have adopted the AED-4CP methodology, including Arizona, Colorado, Kansas, Missouri, New Mexico, and Texas (note, NSPM affiliates, Public Service Company of Colorado and Southwestern Public Service Company, operate in three of these jurisdictions).⁸⁵ Again, the ALJ Report glosses over the adoption of this methodology in other jurisdictions. The ALJ Report also ignores the Commission's own approval of this methodology in Minnesota Power's 2021 rate case to allocate the utility's fixed production costs.⁸⁶

XLI has presented significant evidence that shows the stratification methodology is outdated, and that the AED-4CP method is not only a more appropriate alternative methodology, but it is also widely used in other jurisdictions. Without due consideration of this evidence, XLI

P.U.C. Bull. 929 (Jun. 16, 1988); *Application of Lower Colorado River Authority for Authority to Change Rates*, P.U.C. Docket No. 8032, 14 P.U.C. Bull 1566 (Sept. 22, 1988).

⁸² Ex. XLI-3 at 11:12-15 (Ly Direct).

⁸³ Ex. XLI-3 at 12:11-16 (Ly Direct).

⁸⁴ Ex. XLI-3 at 13:15-18 (Ly Direct).

⁸⁵ Ex. XLI-3 at 14:16-19 (Ly Direct).

⁸⁶ Ex. XLI-3 at 15:3-4 (Ly Direct).

cannot support the recommendations of the ALJ with regard to the methodology underlying the CCOSs in this proceeding.

2. The ALJ Report’s Failure to Engage With Critiques of the E8760 Allocator Results in Flawed Allocation of Demand-Related Transmission Costs.

The ALJ Report does not engage with XLI’s argument that use of an E8760 allocator for the energy-related portion of transmission costs improperly recognizes reliability risks throughout the year, assigning costs to customers on that basis.⁸⁷ Instead, the ALJ Report makes the conclusory statement that the Commission’s reasoning in NSP’s prior rate case (directing use of 12 CP allocator) was “sound.”⁸⁸ As Table 3 demonstrates, instead of directing fuel savings to C&I customers—the stated rationale for stratification—the E8760 allocator exacerbates the problem by not reducing these customers’ energy costs. For instance, while the residential class is assigned non-fuel production costs that are 14% below the NSP average, it is assigned fuel and purchased power expenses only 2% above that average.⁸⁹ This result defies Capital Substitution and epitomizes that the increasing penetration of intermittent renewable resources has rendered stratification unable to recognize the tradeoff between capital costs and fuel costs. Without meaningful engagement with XLI’s evidence and arguments, XLI fails to understand how the ALJ Report can endorse use of such flawed methodologies.

3. The ALJ’s Recommendation Regarding Classification and Allocation of Other Production O&M Overlooks Fundamental Issues with Stratification.

XLI’s concerns with stratification extend to its concerns with the Company’s classification and allocation of other production O&M expenses, transmission plant, and distribution plant. Regarding XLI’s issues with the Company’s classification and allocation of other production O&M expenses, the ALJ overlooks these concerns with the simple reasoning that “[t]he Commission rejected XLI’s same argument in the 2013 rate case.”⁹⁰ This reasoning entirely ignores evidence XLI placed in the record that stratification is obsolete, a foundational flaw that is

⁸⁷ ALJ Report at 164-65, P 1028.

⁸⁸ ALJ Report at 165, P 1029.

⁸⁹ Ex. XLI-3 at 9:23-10:2 (Ly Direct).

⁹⁰ ALJ Report at 171, P 1073.

compounded by the Company's failure to recognize that labor costs, which do not vary with energy costs, comprise an outsized portion of other production O&M expenses.⁹¹

E. REVENUE ALLOCATION ISSUES

1. The ALJ's Recommended Revenue Allocation Does Not Move Customers Closer to Cost.

The ALJ's recommended revenue allocation, which adopts the proposal of the Office of the Attorney General – Residential Utilities Division (“OAG”),⁹² has no support in the record and will cause interclass subsidies for C&I Demand customers. Before addressing the fallacy that the OAG's recommended revenue allocation is reasonable, cost-based, or otherwise supported in the record, XLI emphasizes that Xcel's own analysis shows its revenue allocation proposal *increases* the subsidy borne by the C&I demand class. In schedule 5 of his Direct Testimony, and using the Company's CCOSS as a source, XLI Witness Ly compiled a more accurate measure of movement to cost by comparing the interclass subsidies at present and proposed rates, and demonstrates the Company's proposal increases these subsidies.⁹³ Schedule 5 shows that “the subsidies paid by the C&I Demand class would increase under NSPM's proposal and, as a result, the subsidies received by Residential and Lighting customers would increase. The C&I Non-Demand class would be the only customer class that would be moved closer to cost.”⁹⁴ Schedule 5 is reproduced below as Table 6 to this brief.

⁹¹ XLI Initial Br. at 43; Ex. XLI-3 at 16:14-16 (Ly Direct).

⁹² ALJ Report at 180, P 1110.

⁹³ Ex. XLI-3 at 31:3-6 (Ly Direct).

⁹⁴ Ex. XLI-3 at 31:12-16 (Ly Direct).

Table 6: NSP’s Movement to Cost under Proposed Revenue Allocation

NORTHERN STATES POWER COMPANY - MINNESOTA								
Movement to Cost Under NSP’s Proposed Class Revenue Allocation								
Test Year Ending December 31, 2025								
<u>(Amount in \$000)</u>								
<u>Line</u>	<u>Customer Class</u>	<u>Present Rates</u>			<u>Proposed Rates</u>			<u>Movement to Cost</u>
		<u>Rate of Return</u>	<u>RROR</u>	<u>Subsidy</u>	<u>Rate of Return</u>	<u>RROR</u>	<u>Subsidy</u>	
		(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	Residential	5.40%	95	(\$21,145)	7.25%	96	(\$25,039)	-18%
2	C&I Non-Demand	6.09%	108	2,522	7.94%	105	2,258	10%
3	C&I Demand	5.89%	104	21,990	7.83%	104	26,187	-19%
4	Lighting	4.06%	72	<u>(3,367)</u>	5.94%	79	<u>(3,406)</u>	-1%
5	Minnesota Retail	5.66%	100	\$0	7.56%	100	\$0	17%

Source: MN CCOSS 2025.

Increasing the subsidies paid by the class that already is undeniably out of alignment with the state policy goals in Minn. Stat. § 216B.05 subd. 2(4) is completely at odds with the Company’s, and Commission’s, statutory charge to set rates “to the *maximum reasonable extent*” to further the goals in Minn. Stat. § 216B.05, avoid rate shock, and unreasonable discrimination against any individual customer class.⁹⁵ Furthermore, this subsidy increase for the C&I Demand class is under the Company’s revenue allocation proposal, based on the Company’s CCOSS—the ALJ’s report exacerbates this issue by supporting the aggressively pro-residential and general service revenue allocation based upon the OAG’s revenue allocation proposal using the OAG’s CCOSS.

2. The ALJ Report Disregards Cost of Service and Rate Shock Considerations in Its Revenue Allocation Recommendations.

The ALJ not only ignores record evidence and statutory direction, the ALJ’s findings set aside the Company’s revenue allocation proposal in favor of the aggressively pro-residential and

⁹⁵ Minn. Stat. § 216B.03, .07

general service recommendations of the OAG. To be sure, C&I customers experience rate shock just as any other customer class does. The ALJ first erred in praising the OAG's recommendation for considering "ability to pay and ability to pass on costs."⁹⁶ As XLI Witness Jonathan Ly testified,

Q Do Commercial and Industrial Customers have an unlimited ability to pass on increases in energy costs?

A No. As Ms. Sharber recognizes, the ability of commercial and industrial customers to pass on higher electricity costs is limited due to the fact that many enterprises are facing increasing global and domestic competition. This is particularly relevant to entities participating in commodity-based industries. Because electricity can be a significant operating expense, it is incumbent to minimize costs, in order to sustain their operations. The significant increases, as would result from OAG's recommended revenue allocation, would negatively impact industrial customers' abilities to compete with both domestic and global competitors.⁹⁷

The ALJ thus had no basis to find that "[t]he OAG also considered the ability to pay of various customer classes."⁹⁸

To address the record evidence regarding rate subsidies and uncompetitive rates for C&I Demand customers, Witness Ly prepared a class revenue allocation that mitigated adjustments for potential rate shock and that ensured no customer class would receive increases exceeding 150% of the system average, and that would bring all rate classes closer to cost of service. Witness Ly's analysis is reproduced as Table 7 below:

⁹⁶ ALJ Report at 179, P 1107.

⁹⁷ Ex. XLI-6 at 22:20-23:2 (Ly Rebuttal).

⁹⁸ ALJ Report at 177, P 1099.

Table 7: XLI's Proposed Revenue Allocation

NORTHERN STATES POWER COMPANY - MINNESOTA
XLI's Recommended Class Revenue Allocation
Test Year Ending December 31, 2025
(Amounts in \$000)

Line	Customer Class	Present Non-Fuel Base Revenue Including Riders	Recommended Base Revenue Allocation	
		(1)	Amount	Percent
			(2)	(3)
1	Residential	\$1,152,541	\$222,599	19.3%
2	C&I Non-Demand	90,421	9,180	10.2%
3	C&I Demand	1,471,724	115,904	7.9%
4	Lighting	<u>28,834</u>	<u>5,569</u>	19.3%
5	Total Sales	\$2,743,521	\$353,252	12.9%

The ALJ Report states that XLI's recommendation that revenue apportionment move toward cost, adjusted to mitigate rate shock, demonstrates an implicit argument that the Commission "disregard any other considerations that it has historically and appropriately considered when setting revenue apportionment."⁹⁹ The ALJ Report goes further, stating XLI's proposal requests the Commission "consider only cost of service and rate shock when making its decision."¹⁰⁰ This interpretation is false and misrepresents XLI's argument. Avoiding rate shock and cost of service are two significant factors the Commission considers when determining rates.

The Commission has long expressed its support for moving rates to cost.¹⁰¹ The Commission explicitly considers cost of service when setting rates, which is significant because understanding the cost to service different customer classes is foundational to cost-based rates, which subsequently sends the proper price signals to customers. The price signals inform customers on how their usage impacts the utility costs needed to serve them, resulting in all classes

⁹⁹ ALJ Report at 178, P 1104.

¹⁰⁰ ALJ Report at 178, P 1104.

¹⁰¹ Ex. XLI-3 at 28:18-19 (Ly Direct).

being treated equally while promoting engineering efficiency and stability.¹⁰² Thus, prioritizing revenue allocation methods that drive customers away from cost, or move certain classes closer to cost at the expense of others, contravenes the Commission’s support and precedent for considering cost of service in ratemaking.¹⁰³

3. The ALJ’s Revenue Allocation Recommendation is Inconsistent with the Findings on Class Cost of Service Studies.

More troubling than this divergence from the Commission’s own precedent is that the ALJ’s findings rely on faulty CCOSS findings in two key ways. First, in supporting that more weight be given to CCOSSs that rely on stratification, all of the revenue allocation determinations that follow are inherently flawed. As demonstrated above, the Commission has adopted use of the AED-4CP for Minnesota Power, and the methodology has been adopted across several other jurisdictions. Additionally, while XLI supports sole use of the AED-4CP CCOSS, the Commission has found it acceptable to “consider all of the [CCOSS] models proposed,” which is contradicted by the ALJ Report’s recommendation to only rely on CCOSSs that use stratification.¹⁰⁴ In other words, though XLI strongly advocates for the AED-4CP CCOSS, its revenue allocation proposal may be tailored to the Commission’s CCOSS determination. The ALJ’s proposed revenue allocation is, therefore, arbitrary, and reflects a lack of proper weight to the undisputed evidence offered by XLI in this proceeding.

Second, the ALJ magnifies this error by simultaneously acknowledging the weakness of the OAG’s CCOSS and then relying on it notwithstanding its weaknesses, while ignoring his prior findings with respect to other parties CCOSS.¹⁰⁵ Not only did the ALJ find that Xcel’s, XLI’s, and the OAG’s arguments concerning the Company’s D10S allocator were not persuasively resolved in either side’s favor by stating “[t]he Commission should not give greater or less weight

¹⁰² Ex. XLI-3 at 29:16-22 (Ly Direct).

¹⁰³ *In the Matter of the Application of Minnesota Power for Authority to Increase Rates for Electric Service in Minnesota*, Docket No. E-015/GR-21-335, Findings of Fact, Conclusions, and Order at 50 (Feb. 28, 2023) (eDocket No. 20232-193486-01).

¹⁰⁴ XLI Reply Br. at 20; citing *In the Matter of the Application of Minnesota Power for Authority to Increase Rates for Electric Service in Minnesota*, PUC Docket No. E015/GR-16-664, [Findings of Fact, Conclusions, and Order](#) at 71 (Mar. 12, 2018).

¹⁰⁵ ALJ Report at 179, P 1106.

to any of the CCOSS results presented in the case based on how the proponent applied the D10S allocator,”¹⁰⁶ the ALJ found significant analytical problems with the OAG’s recommendations for classifying and allocating shared distribution costs. Specifically, the ALJ stated that “the OAG has not identified any specific cost items that vary based on customer energy usage. Accordingly, the Peak-and-Average *should be given significantly less weight* than the Basic Customer Method or the Minimum System Method when setting rates in this proceeding.”¹⁰⁷ Later in the recommendations, the ALJ found that the “OAG’s Peak-and Average Model *is entitled to significantly less weight than other models* in the record because of theoretical shortcomings of that model.”¹⁰⁸ The ALJ also downplayed strict reliance on either the Basic Customer Method or Minimum System Method.¹⁰⁹ Overall, the ALJ recommended that “[t]he Commission should give the most weight to the Hybrid Models proposed by the Department and Xcel as well as the Basic Customer models presented by the Department and the OAG.”¹¹⁰ Accepting this recommendation as correct (which XLI does not, for the reasons set forth above in arguments on the CCOSS), the class increases, by percentage, as of the year 2026 are highlighted in a table contained in the ALJ Report as follows:¹¹¹

¹⁰⁶ ALJ Report at 163, P 1022.

¹⁰⁷ ALJ Report at 168, P 1055 (emphasis added).

¹⁰⁸ ALJ Report at 174, P 1085 (emphasis added).

¹⁰⁹ ALJ Report at 169, P 1056.

¹¹⁰ ALJ Report at 174, P 1086.

¹¹¹ ALJ Report at 173, P 1083.

Table 8: Class Increases (By Percentage) As of 2026 Under ALJ Recommendation

Party	Method	Residential	SCI Non-Demand	Demand	Lighting
OAG	Peak & Avg	3.5%	-8.9%	15.7%	28.7%
OAG	Basic Customer	5.8%	-8.5%	13.9%	31.3%
DOC	Basic Customer	9.6%	-11.8%	11.5%	26.9%
Xcel Energy	Hybrid	13.5%	-6.2%	8.3%	30.6%
SRA	Hybrid	13.5%	-6.1%	8.3%	29.3%
DOC	Hybrid	15.0%	-7.2%	7.3%	26.1%
XLI	Hybrid	16.1%	-2.0%	6.3%	19.9%

In short, in his CCOSS findings, the ALJ effectively recommends a CCOSS range of increases as those highlighted in yellow. In other words, and assuming the Company's revenue requirement is approved, the appropriate residential increase range would be between 5.8% and 15% for the residential class and 7.3% to 13.9% for the C&I Demand class. What the ALJ approved on revenue allocation, however, only gives weight to the OAG Basic Customer methodology and gives weight to the Peak & Average Method the ALJ specifically stated should be given significantly less weight than other models.¹¹²

To be sure, the ALJ recommends, based on Xcel's proposed revenue requirement, that the residential class receive a 6.7% increase as of 2026 (the very low end of the range of recommended CCOSSs) and the C&I Demand class receive a 13% increase as of 2026 (the very high end of the range of recommended CCOSSs), effectively mirroring the OAG's basic customer methodology and directionally near the OAG Peak & Average method. The full recommended increase of the OAG can be reviewed in the OAG's Table 7 on revenue apportionment, which was reproduced in the ALJ Report as follows:¹¹³

¹¹² ALJ Report at 168, P 1055 (emphasis added).

¹¹³ ALJ Report at 178, P 1101.

Table 9: OAG Full Recommended Increase (OAG Table 7)

Table 7
OAG Recommended Apportionment at Xcel's Proposed Revenue Requirement

Customer Class	OAG Proposed Class Shares	Class Revenues at Xcel's Proposed Revenue Requirement (\$000s)	Class Increases at Xcel's Proposed Revenue Requirement Under OAG Apportionment	
			(\$000s)	%
2025: Based on Xcel's proposed revenue requirement of \$3,780,853				
Residential	38.87%	\$1,469,748	\$41,741	2.9%
Small General	3.16%	\$119,617	\$0	0.0%
Large General	57.06%	\$2,157,295	\$161,564	8.1%
Lighting	0.90%	\$34,193	\$2,918	9.3%
Total	100.00%	\$3,780,853	\$206,223	5.8%
2026: Based on Xcel's proposed revenue requirement of \$3,994,095				
Residential	39.01%	\$1,558,246	\$97,783	6.7%
Small General	3.18%	\$126,894	\$0	0.0%
Large General	56.91%	\$2,272,943	\$261,167	13.0%
Lighting	0.90%	\$36,012	\$4,458	14.1%
Total	100.00%	\$3,994,095	\$363,408	10.0%

Notwithstanding the ALJ's recommendation that "*[t]he Commission should give the most weight to the Hybrid Models proposed by the Department and Xcel* as well as the Basic Customer models presented by the Department and the OAG,"¹¹⁴ the ALJ gave no weight at all to the hybrid models proposed by the Department and Xcel—the revenue allocation recommended by the ALJ is far closer to the OAG Peak & Average methodology than the Department's hybrid methodology. Had the Department's hybrid methodology been followed, the percentage recommended rate increase for the residential class would have more than doubled and the percentage recommended rate increase for the C&I demand class would have been cut almost in half.

4. Concluding Remarks on Revenue Allocation

It is unfortunately not surprising that endorsing or giving greater weight to CCOSs that favor smaller load and lower load-factor customers (i.e., the residential and general service classes), and then deviating from those CCOSs for the benefit of those smaller load and lower load-factor customers (or effectively recommending that rates be set based on extreme CCOS, as the ALJ did here), has resulted in the discrepancies between the Company's rates and bills and the

¹¹⁴ ALJ Report at 174, P 1086 (emphasis added).

national average, as set forth in Tables 1 and 2 above. In short, the ALJ Report ignores the long-history of subsidies and burdens placed on the C&I Demand class, and the results of those decisions, while criticizing XLI for having the audacity to recommend a course correction. To be sure, the ALJ's recommendations and findings cannot be squared with state law or the record. XLI respectfully requests the Commission pursue elimination of long-standing existing interclass subsidies on the Company's system, which will have a range of benefits for the Company, C&I customers, and other customers by promoting efficiency, stability, and conservation while also providing just and reasonable rates to all customer classes.

III. CONCLUSION

XLI appreciates the ALJ's efforts in preparing the Recommendations; however, the Commission must make certain modifications to reflect evidence in the record, apply the appropriate burden of proof, and comply with the statutory directive of setting just and reasonable rates that comply with the state affordability goals. As explained in detail above, the Commission should take the following actions:

- Find that the Company's proposed ROE is unreasonable and make the following adjustments:
 - Reduce the ROE by at least 50-basis points to account for the Company's significantly reduced risk profile;
 - Disallow recovery of the Company's Customer Care O&M Expense;
 - Reduce the Company's Energy Supply and Transmission O&M Expenses as recommended by XLI;
 - Disallow the Company's recovery of ELI expense;
 - Ensure decisions made on PPA in the Company's previous rate case carry over and apply to the treatment of PPA in the instant proceeding; and
 - Approve an ROE of 8.96% or lower.
- Find that the AED-4CP CCOSs are the most methodologically sound cost studies in the record and should be used to inform revenue allocation; and
- Find that rates should be based upon cost of service.

Dated: May 15, 2026

Respectfully submitted,

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**Attachment A:
XLI Redline to ALJ Report**

PREPAID PENSION AND ACCRUED LIABILITIES

341. In Direct testimony, Xcel proposed to include its prepaid pension asset in rate base and to earn a return at the Company's weighted average cost of capital (WACC).¹

342. Over the life of its pension plan, the Company has contributed more dollars to the plan than it has recognized in actuarially calculated pension expense, which results in a prepaid pension asset. Conversely, the Company has recognized more retiree medical, non-qualified pension, and post-employment benefits expense than it has contributed to those plans, which results in accrued liabilities.² Because the amount of the prepaid pension asset exceeds the amount of accrued liabilities, the result is a net asset, which, after offset by accumulated deferred income taxes (ADIT), results in approximately \$90.2 million that the Company proposed be added to rate base.³

343. The prepaid pension asset differs categorically from most other rate base assets. Generally, rate base assets reflect a large investment paid up front, and then a utility earns a return on that investment as the asset depreciates.⁴

344. Xcel intends to continue operating the pension trust in perpetuity Xcel intends to continue operating the pension trust in perpetuity.⁵

345. If Xcel terminated the trust, the value of the Company's interest, which would be affected by life expectancy, investment returns, and discount rates, cannot be reliably calculated in this proceeding.⁶

346. Any prepaid pension assets returned to the Company upon reversion would be subject to income tax and excise tax.⁷

347. The prepaid pension asset provides benefit to customers by enhancing the Company's ability to attract and retain employees.⁸

348. The prepaid pension asset also helps the Company transition employees into retirement to manage its workforce, knowledge transfer, training, and succession planning.⁹

¹ Ex. Xcel-57 at 84 (Schrubbe Direct).

² Ex. Xcel-57 at 55 (Schrubbe Direct).

³ Ex. Xcel-57 at 55-66 (Schrubbe Direct).

⁴ Ex. DOC-11 at 7-8 (Hunt Surrebuttal).

⁵ Evid. Hrg. Tr. Vol. 1 at 208 (Schrubbe).

⁶ Evid. Hrg. Tr. Vol. 1 at 209 (Schrubbe).

⁷ Ex. DOC-11 at Schedule 3 (Hunt Surrebuttal).

⁸ Ex. Xcel-57 at 24-25, 69 (Schrubbe Direct); Ex. Xcel-58 at 27-28 (Schrubbe Rebuttal).

⁹ Ex. Xcel-62 at 41 (Ly Direct).

349. The prepayments related to pension expenses are not included in operating costs and thus are not recovered as expenses at the time the prepayments are made.¹⁰

350. Pension contributions are legally irrevocable once placed in the pension trust, meaning they can only be used to fund the retirement benefits to employees who serve customers.¹¹ If not for funding the pension trust, these funds could be retained by investors, invested elsewhere, or allocated to other assets that earn a return.¹²

351. Pension contributions are deductible on NSPM's federal income tax return.¹³

352. The annual pension cost determined under the accounting methods used by the Company (i.e., the Aggregate Cost Method for the NSPM Plan, Statement of Financial Accounting Standard (FAS) 87 for the XES Plan) includes an expected return on assets (EROA).¹⁴ The EROA is multiplied by the value of the assets in the pension trust, and the product of this calculation is subtracted from the annual pension cost.¹⁵ Therefore, the return on the prepaid pension asset reduces the annual qualified pension cost charged to customers on a dollar-for-dollar basis.¹⁶

353. The pension trust sees earnings on the entire amount of the assets in the pension trust. These earnings reduce customers' rates.¹⁷ The pension plan amount that earns a return is larger than the amount on which the Company is proposing customers pay a return.¹⁸ This is because the amount of the prepaid pension asset included in rate base reflects reductions for ADIT as well as the accrued liabilities (i.e., the net prepaid pension asset).¹⁹

354. The earnings on the prepaid pension asset will reduce the Company's revenue requirement by nearly \$12.8 million in 2025, and are expected to reduce the Company's revenue requirement by a similar amount through 2026.²⁰

355. The prepaid pension asset consists solely of shareholder (Company) supplied funds. Customers pay the annual pension expense through rates, which is subtracted out of the calculation of the prepaid pension asset.²¹

¹⁰ Ex. Xcel-58 at 22 (Schrubbe Rebuttal).

¹¹ Ex. Xcel-58 at 2 (Schrubbe Rebuttal).

¹² Ex. Xcel-58 at 21 (Schrubbe Rebuttal).

¹³ Ex. Xcel-58 at 24 (Schrubbe Rebuttal).

¹⁴ Ex. Xcel-57 at 69 (Schrubbe Direct).

¹⁵ Ex. Xcel-57 at 69 (Schrubbe Direct).

¹⁶ Ex. Xcel-57 at 69 (Schrubbe Direct).

¹⁷ Ex. Xcel-57 at 70 (Schrubbe Direct).

¹⁸ Ex. Xcel-57 at 71 (Schrubbe Direct).

¹⁹ Ex. Xcel-57 at 72 (Schrubbe Direct).

²⁰ Ex. Xcel-57 at 73, Table 16 (Schrubbe Direct).

²¹ Ex. Xcel-57 at 81 (Schrubbe Direct).

356. The Department opposes a return of the WACC on Xcel's prepaid pension asset.²²

357. In support of this argument, the Department characterizes Xcel's interest the prepaid pension asset as a contingent reversionary interest that Xcel has, at most, a nominal monetary interest in. The Department cites a variety of cases and secondary sources addressing property law to advance this argument.²³

358. It is not necessary to characterize Xcel's propriety interest in any residual funds from pension trust property or to quantify that interest in order to resolve this dispute. The question before the Commission is not what right Xcel shareholders have to the funds in the pension trust or in what amount. Rather, the question is whether the Company is entitled to earn a return on the trust to compensate it for the cumulative investor contributions necessary to fund the prepaid pension asset.²⁴

359. The Commission is required to give "due consideration . . . to other expenses of a capital nature" in determining the Company's rate base on which it may earn a fair return.²⁵ This "due consideration" does not, however, absolve the utility of satisfying its two pronged burden of proof of first, establishing the amount of a given cost as a judicial fact,²⁶ and second, establish that it is just and reasonable for ratepayers (as opposed to the Company's shareholders) to bear those costs.²⁷

360. Notwithstanding distinctions between the prepaid pension asset and many other rate base assets, the prepaid pension asset is of a capital nature. It comprises only shareholder funds.²⁸ Funding the asset requires utility shareholders to expend capital for a benefit that will not accrue until a future date, thereby forgoing other potential uses for those funds. Customers are an eventual beneficiary of the benefit of these funds through reduced future pension expenses.

361. Whether tThe Company is entitled to earn a return of some kind on the prepaid pension asset is an open issue in the Company's last rate case, Docket No. 21-630,

²² Ex. DOC-11 at 19-20 (Hunt Surrebuttal).

²³ Department Initial Brief at 61-64.

²⁴ See Ex. Xcel-58 at 6-7 (Schrubbe Rebuttal).

²⁵ Minn. Stat. § 216B.16, subd. 6; see also *In the Matter of the Application by Northern States Power Company d/b/a Xcel Energy for Authority to Increase Rates for Electric Service in the State of Minnesota*, No. A23-1672, 2025 WL 249995, at *8-10 (Minn. Ct. App. Jan. 21, 2025).

²⁶ *In re Petition of N. States Power Co.*, 416 N.W.2d 719, 722-23 (Minn. 1987)

²⁷ *Id.* at 723 (finding that "by merely showing that it has incurred, or may hypothetically incur, expenses, the utility does not necessarily meet its burden of demonstrating that it is just and reasonable that the ratepayers bear the costs of those expenses").

²⁸ The Department characterizes this funding as "indirect" because Xcel contributes to the pension trust in the ordinary course of business. Department Reply Brief at 9. Prepaid pension contributions are not treated as operating expenses and are supplied by shareholder funds.

[and the decision made there will be carried over and apply here](#). The Company is entitled to earn a return of some kind on the prepaid pension asset.

362. The Department argues that, if a return is authorized, it should be limited to the Company's cost of long-term debt, arguing that such a limitation would still exceed the value of Xcel's proprietary interest in the prepaid pension asset and discourage the Company from making excessive contributions.²⁹

363. The Company maintains that the WACC is the appropriate return because the prepaid pension asset is financed with a mix of debt and equity.³⁰

364. Notwithstanding the Company's position, Xcel indicated that it would be willing to accept, for the purposes of this proceeding, the Department's alternative position to limit the return on the prepaid pension asset to the Company's cost of long-term debt.³¹

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

~~366-365.~~ The Commission should [ensure its decision on approve whether the Company can earn](#) a return on the Company's prepaid pension asset, ~~set at Xcel's cost of long-term debt~~ [conforms to the decision made in the Company's last rate case, Docket No. 21-630.](#)

²⁹ Ex. DOC-11 at 8 (Hunt Surrebuttal).

³⁰ Ex. Xcel-97 at 1-2 (Schrubbe Revised Witness Summary).

³¹ Ex. Xcel-97 at 1-2 (Schrubbe Revised Witness Summary).

Energy Supply O&M

440. The Company's Energy Supply business area is responsible for operating and maintaining the Company's non-nuclear generation facilities that include natural gas, coal, hydro, wind, biomass, refuse, solar, and other facilities.³² In order to safely operate and maintain these generation facilities for the benefit of customers, Energy Supply incurs O&M expenses for labor, overtime, chemicals, materials, outside services, rents, land easements, and employee expenses.³³

441. For 2025 and 2026, Energy Supply has budgeted \$167.5 million and \$192.4 million, respectively, in O&M expenses (NSP Total Company).³⁴ Company Witness Capra provided nearly 40 pages of testimony describing the cost drivers for each of Energy Supply's O&M budget category for 2025 and 2026.³⁵

442. The Company has overstated its Energy Supply O&M costs by an average of approximately 4.3 percent over the past three years, resulting in the Company spending approximately \$14.7 million less than budgeted over that time.³⁶

443. XLI argues that, due to this overbudgeting, ratepayers have unnecessarily paid an extra \$14.7 million in Energy Supply O&M costs during that three-year period.³⁷

444. XLI also noted that Xcel's 2025 Energy Supply O&M budget was 7.8 percent higher than the 2024 budget, and the 2026 budget was 15.4 percent higher than the 2025 budget.³⁸

445. Based on these observations, XLI recommends that the Commission reduce Xcel's proposed Energy Supply O&M expenses by 4.3 percent in both the 2025 Test Year and 2026 Plan Year, which would result in a reduction of \$4.9 million in 2025 and \$5.7 in 2026.³⁹

446. XLI asserted that the Company's true-up would protect it from under-recovery if the Commission were to disallow a portion of its Energy Supply O&M budget.⁴⁰

447. In Response, Xcel offered three justifications for why its actual Energy Supply O&M expenses for 2022-2024 were lower than the amounts approved in the last rate

³² Ex. Xcel-44 at 1-2, 11 (Capra Direct).

³³ Ex. Xcel-46 at 2 (Capra Rebuttal).

³⁴ Ex. Xcel-46 at 4 (Capra Rebuttal). Energy Supply's 2025 and 2026 O&M expenses are \$122.5 million and \$141.4 million for 2025 and 2026 MN Jurisdiction. Ex. Xcel-44 at 57 (Capra Direct).

³⁵ Ex. Xcel-44 at 54-92 (Capra Direct).

³⁶ Ex. XLI-1 at 50, Table 12, (LaConte Direct); Ex. XLI-1 at 51 (LaConte Direct).

³⁷ Ex. XLI-1 at 50-51 (LaConte Direct).

³⁸ Ex. XLI-1 at 51 (LaConte Direct).

³⁹ Ex. XLI-1 at 51 (LaConte Direct).

⁴⁰ Ex. XLI-7 at 14 (LaConte Surrebuttal).

case: (1) delays in the in-service dates for Sherco Solar I and II, (2) a waking damage payment, and (3) liquidated damages.⁴¹

448. When Energy Supply's O&M budgets were developed for the last electric rate case, it was assumed that Sherco Solar I would be in-service in 2023 and Sherco Solar II would be in-service in 2024.⁴² Due to permitting delays, the in-service dates for both of these projects was postponed for a year.⁴³ These delays reduced actual Energy Supply O&M expenses in 2023 and 2024 by \$0.9 and \$4.2 million, respectively.⁴⁴

449. Actual O&M expenses for 2022 to 2024 were lower than approved amounts due to a \$2.5 million waking damages payment received in 2022 related to the Lake Benton Wind project and over \$10 million in liquidated damage payments from 2022 to 2024 from wind service providers.⁴⁵ The waking damage payment and over \$7 million of the liquidated damage payments were returned to customers through the RES Rider.⁴⁶

450. Energy Supply's 2025 O&M budget is higher than 2024 actual expenses due to the addition of Sherco Solar III (\$5.3 million), a major overhaul at Sherco Unit 3 (\$7.9 million), and a one-time obsolete inventory write-off of \$8.1 million due to the Sherco Unit 1 retirement.⁴⁷ Further, Energy Supply's 2026 O&M budget reflected annual base wage increases, a turbine overhaul at the Red Wing Plant Unit 1 (\$1.1 million), and a generator inspection at the King Plant Unit 1 (\$1.2 million).⁴⁸

451. XLI did not dispute any of Xcel's proffered Energy Supply O&M expense drivers or the amounts budgeted by the Company in 2025 and 2026 to address each of these drivers in Surrebuttal Testimony.⁴⁹

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

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

454. Allowing the Company to recover higher rates will directly deny customers the opportunity to benefit from the Company's lower Energy Supply O&M costs through

⁴¹ Ex. Xcel-46 at 4-5 (Capra Rebuttal).

⁴² Ex. Xcel-46 at 4-5 (Capra Rebuttal).

⁴³ Ex. Xcel-46 at 5 (Capra Rebuttal).

⁴⁴ Ex. Xcel-46 at 4-5 (Capra Rebuttal).

⁴⁵ Ex. Xcel-46 at 5 (Capra Rebuttal).

⁴⁶ Ex. Xcel-46, Schedule 2 (Capra Rebuttal); Ex. Xcel-46 at 5 (Capra Rebuttal).

⁴⁷ Ex. Xcel-46 at 7 (Capra Rebuttal).

⁴⁸ Ex. Xcel-46 at 7 (Capra Rebuttal).

⁴⁹ Ex. XLI-7 at 13-15 (LaConte Surrebuttal).

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

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

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

Transmission O&M

472. The Company requested \$18.9 million in Transmission O&M for the 2025 Test Year and \$19.4 million for the 2026 Plan Year.⁴⁸⁰ The Transmission O&M budget includes costs associated with the operation and maintenance of Xcel's transmission system, such as internal and contract labor, employee expenses, fees, and materials.⁴⁸¹

473. The Company's 2025 budget is nine-percent higher than its 2024 forecast.⁴⁸² Xcel stated that the increase was driven by internal labor costs due to annual increases in base pay and additional line inspections for wildfire mitigation.⁴⁸³ The 2026 forecast is two-percent higher than the 2024 forecast.⁴⁸⁴

474. The Department recommended setting Transmission O&M expense at the level of the Company's actual Transportation O&M expenses, arguing that the consistently declining actual Transmission O&M expenses, as well as the insufficiency of Xcel's explanation in support of its requested increase, merited such an adjustment. The impact of this adjustment would be a \$1.5 million reduction in the 2025 test year and a \$2.0 million reduction in the 2026 plan year.⁴⁸⁵

475. XLI recommends reducing Transmission's O&M expenses by 16.2 percent in 2025 and 2026, or approximately \$3.1 million each year.⁴⁸⁶ XLI determined this reduction by comparing Transmission's 2022 through 2024 actual O&M expense to the approved amounts in the Company's last electric rate case, and taking the three-year average of the difference between them.⁴⁸⁷ XLI's recommended Transmission O&M expense budgets of \$15.8 million for 2025 and \$16.3 million for 2026.⁴⁸⁸

476. Transmission's internal labor costs are budgeted to increase in 2025 and 2026 compared to prior years' actual costs due to annual increases in base pay and increases in internal labor associated with line inspections for wildfire mitigations.⁴⁸⁹ According to the Company, the annual increases in base pay account for a \$0.3 million increase in the 2025 budget compared to 2024 actuals and a \$0.3 million increase in the 2026 budget compared to the 2025 budget.⁴⁹⁰ Likewise, the increases in internal labor associated with line inspections for wildfire mitigations account for a \$0.5 million increase in the 2025 budget compared to 2024 actual totals.⁴⁹¹

477. Xcel asserted that internal reorganizations within the Company impacted Transmission's actual O&M expense from 2022 through 2024.⁴⁹² Specifically, in 2023, the Company formed a new Integrated System Planning (ISP) business unit, and starting that same year, certain fees and internal labor costs were shifted out of Transmission and into ISP and legal services.⁴⁹³ This resulted in a \$0.9 million decrease in Transmission's 2023 and 2024 actual O&M expense compared to the approved amounts in the Company's last electric rate case.⁴⁹⁴

478. In addition to internal labor costs, the Company's 2025 and 2026 Transmission O&M expense budgets reflect increases in materials due to inflation and increases in maintenance work, as well as employee expenses due to increases in employee training and travel.⁴⁹⁵

479. The Company also discussed the increase in capital investments in 2025 and 2026, including numerous transmission projects approved by MISO as part of its Long-Range Transmission Planning Tranche 1 Portfolio as well as the Minnesota Energy Connection project, that will impact 2025 and 2026 O&M expenses.⁴⁹⁶ Company Witness Berklund asserted that “[c]apital investments are a key driver of O&M for Transmission.”⁴⁹⁷ The Company projects there will be a substantial increase in Transmission capital investments in 2025 and 2026 compared to 2024, and asserts that this demonstrates the reasonableness of Transmission’s projected increases in O&M expenses of \$1.5 million in 2025 and \$2.0 million in 2026 compared to 2024 actuals.⁴⁹⁸

480. In 2024, certain North American Electric Reliability Corporation and MISO related administrative fees and facility study costs were also shifted out of Transmission and into ISP.⁴⁹⁹ This resulted in a \$2.1 million decrease in Transmission’s 2024 actual O&M expense compared to the approved 2024 O&M expense amount.⁵⁰⁰

481. The Company presented evidence that Transmission’s 2025 O&M expense budget is ten percent lower than its 2022 actual O&M expense and Transmission’s 2026 O&M expense budget is eight percent lower than its 2022 actual O&M expense.⁵⁰¹ Transmission’s 2025 and 2026 O&M expense budgets are also lower than the most recent four-year (2021-2024) average of actual O&M expense.⁵⁰² Moreover, the Company’s internal reorganization changes were taken into account when developing Transmission’s 2024 O&M expense forecast (\$17.3 million), which was nearly identical to 2024 actual O&M expense (\$17.4 million).⁵⁰³ This demonstrates that Transmission has already appropriately accounted for these changes in its rate forecasts and budgets.⁵⁰⁴

482. The Company further stated that the remaining difference between Transmission’s actual O&M expense and the approved amounts was due to reduced O&M labor split rates.⁵⁰⁵

483. These changes were taken into account when developing Transmission’s 2025 and 2026 O&M expense budgets.⁵⁰⁶ In developing its budgets (including for 2025 and 2026), Transmission uses a bottom-up approach.⁵⁰⁷ That is, each budget manager reviews their needs, factoring in work and any anticipated efficiency gains, and develops budgets in accordance with those needs and anticipated efficiency gains.⁵⁰⁸ The individual budgets are then consolidated for a total Transmission O&M expense budget and analyzed for reasonableness and accuracy compared to recent actual trends.⁵⁰⁹ This includes normalizing actual spend for expenses that are not expected to continue into the budget year due to changes in business conditions or one-time events.⁵¹⁰

484. After reviewing Xcel’s response, the Department argued that even after accounting for the reorganization, the company’s actual Transmission O&M expenses for 2023 and 2024 were still \$3.5 million below its forecast.⁵¹¹ The Department also noted that annualizing Xcel’s actual 2025 spending to date resulted in a projected 2025 actual expense of \$17.07 million, less than its forecasted expense of \$18.9 million and less than the Department’s recommendation of \$17.4 million.⁵¹²

485. The Department and XLI have both put forward compelling evidence of a historical trend that suggests Xcel's Transportation O&M budget is too high for 2025 and 2026.

486. In response to these concerns, the Company presented detailed analysis and explanation of its budgeting process as well as specific drivers that it asserted justified the increase in Transportation O&M expense for 2025 and 2026. Taken in isolation, this evidence might be sufficient to warrant rate recovery of Transportation O&M expenses at the Company's requested levels.

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

488. Additionally, as XLI argues, simply because the Company can provide an explanation for these deviations does not justify recovery of the full budgeted costs. The Company's use of a projected, rather than historical, test year favors the Company to the detriment of ratepayer in that it denies them the immediate cost savings that come with lower budgeted costs, and can produce excessive rates due to forecasting errors, or biased projected produce excessive rates due to forecasting errors, or biased projected. Because the actual Transportation O&M expenditures were on pace to exceed XLI's proposed level of recovery, and because of the detailed analysis presented by the Company justifying its budget, XLI's proposal would inadequately compensate the Company for its Transportation O&M expenditures and should be rejected.

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

Customer Care O&M

490. Consistent with treatment in prior rate cases, the Company developed its Customer Care O&M budget by assessing the needs of the Customer Care organization and the various Operating Companies that the Customer Care division supports, and budgeting at the business function level. The Company proposed a Customer Care O&M budget for the MYRP of \$27.3 million for the 2025 test year and \$27.1 million for the 2026 plan year.⁵⁰

491. The overall Customer Care O&M 2025 test year budget is a decrease from the O&M expense levels for the prior four years and represents a decrease of approximately 15 percent as compared to the 2021 Customer Care O&M expense. The Company provided testimony and data showing that, although the Customer Care O&M budget is decreasing overall, the Company anticipates an increase in Customer Care labor costs of approximately \$1.1 million attributable to employee headcount and annual wage increases. The Company also estimated an increase in Customer Care labor costs of approximately \$359,000 from 2025 to 2026 attributable to annual wage increases.⁵¹

492. XLI member, BOMA Greater Minneapolis, has reported that at least 23 of its members have experienced billing and customer service issues since 2022, including “delayed and inaccurate bills, misapplied payments, and ineffective communications and resolutions” and erroneous disconnection notices.⁵²

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

494. XLI recommended denial of all Customer Care expenses in both 2025 and 2026 based on these concerns.⁵³

495. The Company has attempted to identify the affected BOMA members, including by requesting identification of which BOMA members continue to experience billing and customer service issues that remain unresolved. BOMA has not provided this information.⁵⁴

496. The Company implemented alternative means to identify impacted BOMA members and respond to BOMA’s concerns. Xcel’s Billing Department partnered with the Account Management team to compile bi-weekly lists of identified BOMA member accounts to evaluate whether any of these accounts warrant further review to capture any

⁵⁰ Ex. Xcel-38 at 9, 14 (Lindgren Direct).

⁵¹ Ex. Xcel-38 at 10, 16 (Lindgren Direct).

⁵² Ex. XLI-1 at 59 (LaConte Direct).

⁵³ Ex. XLI-2 at 1, 59-64 (LaConte Direct). XLI also recommended a reduction in Xcel’s authorized ROE.

⁵⁴ Ex. Xcel-81 at 7 (Howard Rebuttal).

account anomalies, such as billing delays, before these anomalies create the need for post-billing corrections.⁵⁵

497. No other party has challenged the recoverability of Xcel's Customer Care O&M expenses. No party, including XLI, has disputed the amount Xcel is spending on Customer Care O&M expenses. Rather, XLI's argument seems to be effectively that, due to the purported billing errors experienced by BOMA members, Xcel's customer care efforts are inadequate such that ratepayers should not fund those activities.

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

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

~~500-499. The Company should not be allowed to recover Customer Care O&M expenses where it cannot meet its statutory obligations to its customers. Further, disallowance of any entire category of O&M costs actually incurred by the Company, totaling more than \$27 million annually, would be a drastic remedy even if XLI's allegations were credited.~~

~~501-500. The issues experienced by these customers are well known, so much so that the Commission has opened a separate docket into this matter for residential issues, Docket No. 25- 341. At the Commission's February 19, 2026 agenda meeting, the Commission determined to expand Docket No. 25-341 to include C&I customers, and require the Company to conduct the same reporting for C&I customers as it currently does for Residential customers. Xcel and XLI have agreed that the Commission's ongoing investigation into residential billing errors in Docket No. E, G-002/CI-25-341 should be expanded to include commercial customers such as BOMA.⁵¹⁹ That proceeding provides an opportunity for the Commission to develop a more robust record on commercial billing errors and, if appropriate, tailor a more appropriate and targeted remedy than disallowance of all of the Company's Customer Care O&M costs in this proceeding.~~

~~502-501. The Company has not met its burden to prove that its Customer Care O&M costs are appropriate for recovery in the requested amount, and the Commission should~~

⁵⁵ Ex. Xcel-81 at 6 (Howard Rebuttal).

| [not](#) approve these costs.

14. Top Ten Executive Compensation

[Paragraphs 595-621 omitted]

622. The Commission should also initiate a proceeding to examine Xcel's executive compensation and what adjustments are appropriate to ensure the Company is incentivized to control rate increases and pursue achievement of the state policy goal outlined in Minn. Stat. 216C.05 subd. 2(4) for all customer classes, ~~if any, mechanisms are appropriate to ensure the Company is able to earn just and reasonable rate recovery, at an appropriate level, of a necessary cost of providing electric service.~~

Insurance

752. The Company seeks to recover \$34.2 million in 2025 and \$37.6 million in jurisdictionally allocated insurance premium costs for 2025 and 2026.⁵⁶

753. The Commission ordered the parties to develop a record on the insurance premium expense that addressed, at a minimum, six specific categories of information. The required information includes “the forecasted and actual annual expenses for each subcategory of expenses and credits since 2017,” “[t]he extent to which the Marshall Wildfire in Colorado and the 2024 Smokehouse Creek Fire Complex in Texas affect the insurance premium, rate of return, or borrowing costs for the MN jurisdiction,” and if refunds and credits cannot be accurately predicted, “proposed mechanisms by which rate payers can be appropriately reimbursed for insurance expenses refunds and credits they have paid for in base rates.”⁵⁷

754. The Company stated that insurance costs are impacted by the insurance market conditions and the Company’s exposure metrics that are evaluated annually. To determine insurance market conditions, the Company consults with insurance brokers to identify if markets will be trending up, trending down, or staying flat. The Company then evaluates its exposure metrics, such as number of employees, miles of pipes and wires, and changes to the value of insurable assets.⁵⁸

755. The test year insurance budget is generally based on insurance premiums paid in the prior two years, which are then adjusted to take into account the identified trends in insurance market conditions and the Company’s exposure metrics. The forecast includes anticipated distributions and credits from insurers.⁵⁹

756. The Company identified two factors that are leading to an upward trend in the Company’s insurance premium budgets for the period covered by the MYRP: (1) a hardening of the insurance market, in particular affecting the Company’s Master Property Insurance and Excess Liability Insurance,⁶⁰ and (2) increased utility industry losses, including losses due to events such as wildfires and gas explosions, which impact the Company’s Excess Liability premiums.⁶¹

757. An underwriting change in 2023 resulted from the increase in wildfire claim risk across the utility industry. This change caused an increase in Excess Liability premiums effective as of the October 2024 policy renewal, impacting premium cost

⁵⁶ Ex. Xcel-53 at 19 (Miller Direct).

⁵⁷ Notice and Order for Hearing at 3–4 (Dec. 30, 2024) (eDocket No. 202412-213391-01).

⁵⁸ Ex. Xcel-53 at 20 (Miller Direct).

⁵⁹ Ex. Xcel-53 at 20 (Miller Direct).

⁶⁰ Ex. Xcel-53 at 23 (Miller Direct).

⁶¹ Ex. Xcel-53 at 30 (Miller Direct).

in 2025 and beyond.⁶²

758. The Department argued that Xcel's forecast was inadequately supported, was out of line with historical increases in expense, and had not been shown to protect Minnesota ratepayers from subsidizing wildfire-related costs caused by other jurisdictions or inaccurate predictions in refunds and credits.⁶³

759. The Department recommended an alternative forecast expense, using the company's actual 2024 insurance premium expenses, increased by the average annual increase in insurance expense from 2020 through 2024 to generate the 2025 forecast.⁶⁴ The Department then applied Xcel's recommended increase to the 2025 forecast to generate the 2026 forecast.⁶⁵

760. The Department advocated for using a four-year lookback period to determine the insurance premium expense.⁶⁶ The Department noted that there have been large swings in annual changes in insurance premium expense, with annual changes from 2021 to 2025 ranging from -22.13 percent to 122.67 percent.⁶⁷ Given the significant fluctuations in insurance costs from year to year, the Department believes a longer look back period is appropriate because it better captures volatility in the insurance market.⁶⁸

761. Based on the increase in premiums from 2024 to 2026 and concerns that the Company was subsidizing the insurance costs of other jurisdictions with higher wildfire risk or claims experience based on the amount of Excess Liability premium cost allocated to the Company, XLI also recommended that the Company's recovery of Excess Liability insurance premium costs be based on an average increase, using the period from 2022 to 2024 for the average.⁶⁹

~~762. Notably, neither the Department nor XLI disputes the type or amount of coverage obtained by the Company. The Minnesota-jurisdictional portion of the overall ELI expense has increased by 160%, and as stated earlier in this Report, Xcel's wildfire risk in Minnesota is low compared to wildfire risks nationally and Minnesota as a whole.~~

~~763-762.~~ The Company updated its Excess Liability Insurance Premium information in Rebuttal Testimony, providing a July 2025 forecast that was based on six months of

⁶² Ex. Xcel-54 at 4-5, 8 (Miller Rebuttal).

⁶³ Ex. DOC-23 at 23-25 (Jones Direct).

⁶⁴ Ex. DOC-23 at 25 (Jones Direct).

⁶⁵ Ex. DOC-23 at 25-26 (Jones Direct).

⁶⁶ Ex. DOC-24 at 24 (Jones Surrebuttal).

⁶⁷ Ex. DOC-24 at 24 (Jones Surrebuttal).

⁶⁸ Ex. DOC-24 at 24 (Jones Surrebuttal).

⁶⁹ Ex. XLI-1 at 54-58 (LaConte Direct).

actual premium experience. The change in Excess Liability premium costs were not substantial, and the Company did not update its requested recovery of premium costs.⁷⁰

~~764-763.~~ Xcel was allocated a lower percentage of Excess Liability Premium cost in the July 2025 forecast than in the initial forecast as a result of loss and wildfire loading provided by the Company's insurance brokers.⁷¹

~~765-764.~~ However, ~~t~~This evidence ~~both is insufficient to~~ corroborates the accuracy of the Company's initial forecast and demonstrates that loss and wildfire loading by Xcel's brokers ~~may not be~~ is appropriately allocating risk among Xcel Energy, Inc.'s various jurisdictions.

~~766-765.~~ The Commission should also establish a symmetrical true-up for insurance costs to ensure that the Company neither over-recovers nor under-recovers its insurance costs.⁷² While true-ups should not be relied on excessively as a substitute for accurate expense forecasting, these costs are particularly well-suited for such a mechanism. The type and nature of Xcel's coverage is not disputed by any party, is a reasonable and necessary cost of providing utility service, and is subject to substantial variation in cost. A true-up would reasonably protect ratepayers from over-paying, while also allow Xcel to recovery a necessary cost.

~~767-766.~~ The Company has not met its burden to establish that its forecasted Excess Liability Premium costs are reasonable, ~~and Therefore, the Commission~~ should reduce the Company's recoverable Excess Liability Insurance expense to ensure Minnesota customers are not subsidizing customers in other jurisdictions. be approved by the Commission as the baseline for this true-up mechanism.

⁷⁰ Ex. Xcel-56 at 2-3 (Miller Rebuttal).

⁷¹ Ex. Xcel-56 at 3-4 (Miller Rebuttal).

⁷² The Company proposed a symmetrical true-up mechanism for these costs in Rebuttal Testimony. Ex. Xcel-56 at 11-23 (Miller Rebuttal). Neither the Department nor XLI responded to this suggestion in Surrebuttal Testimony.

COST OF CAPITAL

1. Return on Equity (ROE)

a. Introduction and Legal Standard

883. The only remaining cost of capital issue in this proceeding concerns the ROE to be allowed.

[884.](#) Minn. Stat. § 216B.16, subd. 6, states: The commission, in the exercise of its powers under this chapter to determine just and reasonable rates for public utilities, 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, including adequate provision for depreciation of its utility property used and useful in rendering service to the public, and to earn a fair and reasonable return upon the investment in such property.

[884-885.](#) The United States Supreme Court established the hallmarks of a reasonable return on capital, including a reasonable rate of return on common equity, in the landmark cases of *Bluefield* and *Hope*.⁷³ The Court has stated, “What annual rate will constitute just compensation depends upon many circumstances and must be determined by the exercise of a fair and enlightened judgment, having regard to all relevant facts.”⁷⁴

[886.](#) Recommending an ROE involves an element of subjective judgment, and an ROE “must be determined by the exercise of fair and enlightened judgment.”⁷⁵ Above all, determining an ROE requires consideration of several factors (financial and non-financial):

the need of the public utility for revenue sufficient to enable it to meet the cost of furnishing the service, including adequate provision for depreciation of its utility property used and useful in rendering service to the public, and to earn a fair and reasonable return upon the investment in such property.⁷⁶

[887.](#) The Company’s testimony and briefing in this proceeding acknowledges that, consistent with state law, case law directs the ALJ and Commission to allow for a cost of capital that is:

⁷³ *Bluefield Water Works & Improvement Company v. Public Service Commission of West Virginia*, 262 U.S. 679, (1923); *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1944).

⁷⁴ *Bluefield*, 262 U.S. at 692.

⁷⁵ *Bluefield Water Works & Improvement Company v. Public Service Commission of West Virginia*, 262 U.S. 679, 692, (1923).

⁷⁶ Minn. Stat. § 216B.16, subd. 6 (emphasis added).

- [Adequate to allow the Company to attract the capital necessary to provide safe and reliable service;](#)
- [Sufficient to ensure the Company’s ability to maintain its financial integrity; and](#)
- [Comparable to returns on investments in other enterprises having similar risk \(i.e., fair and reasonable\).⁷⁷](#)

[885-888. The Company is thus aware of its burden to establish a sufficient, adequate, and fair and reasonable ROE.⁷⁸](#)

[886-889.](#)

~~887.~~ The Court has also stated that: From the investor or company point of view, it is important that there be enough revenue not only for operating expenses, but also for the capital costs of the business. These include service on the debt and dividends on the stock. By this standard the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital.⁷⁹

[890.](#) The Minnesota Supreme Court has adopted the *Bluefield* and *Hope* requirements, including *Bluefield’s* command that: Rates which are not sufficient to yield a reasonable return on the value of the property used, at the time it is being used to render the service, are unjust, unreasonable, and confiscatory, and their enforcement deprives the public utility company of its property in violation of the Fourteenth Amendment.⁸⁰

[888-891. However, neither the *Hope* and *Bluefield* decisions nor Minnesota law require the Commission to provide investors with above-average returns. Instead, utilities are simply allowed an opportunity to earn a return commensurate with risk.⁸¹](#)

[889-892.](#) The *Hibbing* Court further described the establishment of a rate of return as a quasi-judicial function which involves a factual determination of “a fair rate of return which will provide earnings to investors comparable to those realized in other businesses which are attended by similar risk,”⁸² and stated that “[t]o peg an established rate to a rate advocated by any one of several expert witnesses is an arbitrary delegation of that duty.”⁸³

[890-893.](#) The Commission has observed that “[s]etting the cost of equity is a fact-intensive and record-specific judgment.”⁸⁴ The Commission considers the record as a whole, with the objective of establishing a reasonable return based on the record in its

⁷⁷ NSP Initial Br. at 17 (citing Xcel-24 at 7-13 (Nowak Direct)) (emphasis added).

⁷⁸ NSP Initial Br. at 19.

⁷⁹ *Hope*, 320 U.S. 591 at 603 (internal citation omitted).

⁸⁰ *Hibbing Taconite Co. v. Minn. Pub. Serv. Comm’n*, 302 N.W.2d 5, 10 (Minn. 1980) (citing *Bluefield*, 262 U.S. at 690).

⁸¹ [Minn. Stat. § 216B.16, subd. 6.](#)

⁸² *Hibbing*, 302 N.W.2d at 9–10 (quoting *Northwestern Bell Telephone Co. v. State*, 299 Minn. 1, 5–6, 216 N.W.2d 841, 846 (1974)).

⁸³ *Hibbing*, 302 N.W.2d at 11.

⁸⁴ MERC 2017 Rate Case Order at 26.

entirety.⁸⁵

~~894-894~~. The Commission's approach is consistent with the United States Supreme Court's observation that "[t]he Constitution does not bind rate-making bodies to the service of any single formula or combination of formulas. Agencies to whom this legislative power has been delegated are free, within the ambit of their statutory authority, to make the pragmatic adjustments which may be called for by particular circumstances."⁸⁶

~~892-895~~. Xcel's most recently approved ROE is 9.25 percent.⁸⁷

b. Summary of the Parties' Positions

~~893-896~~. -The parties' recommended ROEs are summarized as follows:

Xcel	10.30%
The Department	9.25%
XLI	8.96%
CUB	9.0%
Walmart	≤9.25%

~~894-897~~. Xcel recommended an ROE of 10.30 percent within an indicated range of 10.00 percent to 11.00 percent.⁸⁸ The Company provided several analyses, including a Constant Growth Discounted Cash Flow (DCF) model, a Two-Growth DCF model, a Capital Asset Pricing Model (CAPM), a Bond Yield Plus Risk Premium model (RPM), and an Expected Earnings Analysis.⁸⁹

~~895-898~~. The Department recommended an ROE of 9.25 percent.⁹⁰ This amount was approximately 40 basis points higher than the cost of equity derived from the Department's Multi-Stage DCF analysis.⁹¹

~~896-899~~. XLI recommended an ROE of 8.96 percent.⁹² This result was derived from the 9.56 percent average of results of several DCF models, including a Constant Growth

⁸⁵ MERC 2017 Rate Case Order at 26.

⁸⁶ *FPC v. Natural Gas Pipeline Co.*, 315 U.S. 575, 586 (1942).

⁸⁷ Xcel 2021 Rate Case Order at 92.

⁸⁸ Ex. Xcel-24 at 4-5 (Nowak Direct).

⁸⁹ Ex. Xcel-24 at 35-52 (Nowak Direct).

⁹⁰ Ex. DOC-12 at 85 (Addonizio Direct).

⁹¹ Ex. DOC-12 at 85 (Addonizio Direct).

⁹² Ex. XLI-1 at 31 (LaConte Direct).

DCF model, a Two-Stage⁹³ DCF Model, and a Multi-Stage DCF Model,⁹⁴ adjusted downward by a 50-basis point risk adjustment⁹⁵ and ten basis points to account for billing issues.⁹⁶

897-900. CUB recommended an ROE of 9.0 percent. CUB's recommendation is not derived from a specific model and falls within a range from 7.7 percent to 9.3 percent that CUB's witness believes reflects a reasonable cost of equity for Xcel.⁹⁷

898-901. Walmart did not provide independent modeling, but recommended that the Commission not approve an ROE higher than the Company's current 9.25 percent ROE based on several factors, including recent ROEs approved by the Commission and other regulators in the nation.⁹⁸

c. Proxy Groups

899-902. One method for estimating Xcel's cost of equity in this proceeding is to identify a proxy group of publicly traded companies that pose risks to equity investors similar to the investment risks of Xcel, which is not publicly traded company poses. It is notable that while Xcel is not itself public traded, its parent Xcel Energy, Inc. is.⁹⁹

900-903. The Department compiled a list of all companies categorized as electric utilities by Value Line, a well-known investor service.¹⁰⁰ The Department then applied various screens designed to make sure the proxy group companies were reasonably comparable to Xcel.¹⁰¹ This process produced a list of 16 companies.¹⁰²

901-904. Starting with a list 36 investor-owned electric utility companies identified by Value Line, Xcel developed its own proxy group by applying various screens.¹⁰³ This process produced a list of 15 companies as of Direct Testimony.¹⁰⁴

902-905. In Rebuttal Testimony, the Company applied the same screening criteria which resulted in the removal of two companies due to recent merger and acquisition

⁹³ In this proceeding, different parties used the terms "Two-Stage" and "Two-Growth" in reference to a specific version of the DCF model. This distinction appears to be semantic and the terms are used interchangeably in this Report.

⁹⁴ Ex. XLI-1 at 25 (LaConte Direct).

⁹⁵ Ex. XLI-1 at 28-30 (LaConte Direct).

⁹⁶ Ex. XLI-1 at 30-31 (LaConte Direct).

⁹⁷ Ex. CUB-1 at 43-44 (Kihm Direct).

⁹⁸ Ex. WAL-1 at 14 (Austin Direct).

⁹⁹ Ex. DOC-12 at 14-15 (Addonizio Direct).

¹⁰⁰ Ex. DOC-12 at 16 (Addonizio Direct).

¹⁰¹ Ex. DOC-12 at 17-20 (Addonizio Direct).

¹⁰² Ex. DOC-12 at 20-21 (Addonizio Direct); see *also* Ex. DOC-13 at 4 (Addonizio Surrebuttal) (reflecting minor adjustments to account for recent developments).

¹⁰³ Ex. Xcel-24 at 31-33 (Nowak Direct).

¹⁰⁴ Ex. Xcel-24 at 33 (Nowak Direct).

activity and added a company that now met its criteria.¹⁰⁵

903-906. CUB and XLI utilized the same proxy group that Xcel used in its Direct Testimony.¹⁰⁶

904-907. Differences in the proxy groups utilized by parties did not meaningfully cause differences in the results of their various models. Rather, other analytic, methodological, and philosophical determinations account for the disparate ROE recommendations in this proceeding.

d. Financial Modeling

905-908. There are various methodologies that may be used to estimate a reasonable ROE.

906-909. In this proceeding, parties offered cost of equity calculations based on the following models: DCF, CAPM, Bond Yield Plus Risk Premium, and Expected Earnings Analysis.

907-910. The DCF model is a cost equity model that is commonly used to estimate a company's cost of equity. The DCF model is based on the financial theory that the current price of a stock equals the present value of all expected future dividends in perpetuity discounted by the appropriate rate of return.¹⁰⁷

908-911. The DCF model has three components: current stock price, a stream of future dividend payments paid in perpetuity, and the required rate of return on equity. With estimates of any two of the inputs, the third can be calculated. Current stock prices are directly observable, and future dividend streams can be estimated by applying projected growth rates to the current, known level of dividends. Using this information, a company's rate of return on equity can be calculated. Applying this equation to each company in their respective proxy group, an analyst can estimate Xcel's cost of equity.¹⁰⁸

909-912. There are three DCF models in this record: Constant Growth, Two-Growth or Two-stage, and Multi-Stage.

910-913. In a Constant Growth DCF model, dividends are assumed to grow in perpetuity at a chose growth rate.¹⁰⁹

911-914. In a Two-Growth DCF model, dividends are assumed to one growth rate for an initial period, before transitioning to a different growth rate that is assumed to remain

¹⁰⁵ Ex. Xcel-25 at 12 (Nowak Rebuttal).

¹⁰⁶ Ex. CUB-1 at 30 (Kihm Direct); Ex. XLI-1 at 22 (LaConte Direct).

¹⁰⁷ Ex. DOC-12 at 40 (Addonizio Direct).

¹⁰⁸ Ex. DOC-12 at 40–41 (Addonizio Direct).

¹⁰⁹ Ex. DOC-12 at 53 (Addonizio Direct).

constant in perpetuity.¹¹⁰

912-915.-In a Multi-Stage DCF model, dividend growth rates are estimated for three stages: (i) years one through five; (ii) years six through ten or years six through 20 years; and (iii) from the end of the second stage in perpetuity.¹¹¹

913-916.-The DCF methodology has been widely used in regulatory proceedings for decades.¹¹² The Commission has traditionally relied heavily on the Two-Growth DCF model when setting authorized ROEs.¹¹³

914-917.-The Commission has never adopted nor categorically rejected the Multi-Stage DCF analysis, but it has recognized it may be “particularly useful for smoothing out more sharply anticipated variations in growth rates.”¹¹⁴

915-918.-Another model used by the parties to estimate Xcel’s cost of equity was the CAPM. The CAPM is premised on the idea that through diversification, investors can effectively eliminate the effects of any company-specific risks. Therefore, the only risk that matters for the purpose of estimating cost of equity is the systematic risk of the stock, or the stock’s tendency to move tandem with the market as a whole.¹¹⁵

916-919.-While the CAPM is theoretically sound, empirical studies have shown it does a poor job explaining equity returns.¹¹⁶ The Commission has recognized the diminished reliability of the CAPM for estimating a reasonable ROE.¹¹⁷

917-920.-The RPM compares the risk premium implied by historical authorized ROEs compared to prevailing interest rates at the time of prior regulatory decisions. The analysis incorporates historical ROE decisions under a variety of capital market conditions. A regression analysis of the relationship between interest rates and authorized returns reveals a statistically significant relationship which is then applied to estimate a reasonable return given current and expected interest rates.¹¹⁸

¹¹⁰ Ex. DOC-12 at 53 (Addonizio Direct).

¹¹¹ Ex. DOC-12 at 46–47 (Addonizio Direct).

¹¹² Ex. DOC-12 at 40 (Addonizio Direct).

¹¹³ Xcel 2021 Rate Case Order at 89.

¹¹⁴ *In re Appl. of Otter Tail Power Co. for Auth. to Increase Rates for Elec. Serv. in the State of Minn.*, MPUC Docket No. E017/GR-20-719, FINDINGS OF FACT, CONCLUSIONS, & ORDER at 34 (Feb. 1, 2022) (eDocket No. 2022-182349-01) [hereinafter Otter Tail 2020 Rate Case Order].

¹¹⁵ Ex. DOC-12 at 57-58 (Addonizio Direct).

¹¹⁶ Ex. DOC-12 at 59 (Addonizio Direct).

¹¹⁷ *See In re Pet. By Great Plains Nat. Gas Co., a Division of Montana-Dakota Utilis., Co., for Auth. to Increase Nat. Gas Rates in Minn.*, MPUC Docket No. G-004/GR-19-511, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 17 (Oct. 26, 2020) (eDocket No. 202010-167656-01) [hereinafter Great Plains 2019 Rate Case Order].

¹¹⁸ Ex. Xcel 24 at 47-49 (Nowak Direct); Ex. Xcel 25 at 40-41, 75-76 (Nowak Rebuttal).

918-921. -The Commission has historically relied on the Risk Premium method less heavily, as the model is backward-looking and more prone to volatile and unreliable outcomes.¹¹⁹

922. The Expected Earnings Analysis is a comparable earnings analysis that calculates the earnings that investors expect to receive on the book value of a stock, using an accounting-based approach that relies on investment analysts' projections of earnings on book equity.¹²⁰

919-923. While methodologies exist and are used to estimate a reasonable ROE, the Commission has stated a preference for the two-growth discounted cash flow ("DCF") methodology.¹²¹ Therefore, the two-growth range of results should be given priority in this proceeding. This preference, however, does not override the need to assess how the results of that model interact with the other requirements to evaluate adequacy of the ROE in attracting capital and sufficiency of the ROE to maintain financial integrity.

¹¹⁹ Great Plains 2019 Rate Case Order at 15.

¹²⁰ Ex. Xcel-24 at 49-51 (Nowak Direct).

¹²¹ *In the Matter of Otter Tail Power Company for Authority to Increase Rates for Electric Service in the State of Minnesota*, PUC Docket No. E017/GR-20-719, Findings of Fact, Conclusions, and Order at 34 (Feb. 1, 2022) (concluding the two-growth DCF method is the best approach).

e. XLI's Proposed ROE

954. XLI recommended an ROE of 8.96 percent in Direct Testimony.¹²²

955. XLI Witness LaConte developed an ROE recommendation through the use of three DCF models (a Constant Growth, Two-Stage, and Multi-Stage) and two CAPM analyses (historical and projected). The results of Witness LaConte's DCF analyses were a 9.56 percent ROE (before adjustment) as shown in the following table:¹²³

Table 8 Estimated ROE Using DCF Method	
Model	Value
Constant Growth Low	9.36%
Constant Growth Mean	10.38%
Constant Growth High	11.84%
Two-Stage	9.58%
Multi-Stage Low	8.29%
Multi-Stage Mean	8.58%
Multi-Stage High	8.91%
Average	9.56%
Source: Schedule Nos. 3 -7.	

956. Witness LaConte's application of the Two-Growth DCF analysis incorporates a long-term GDP growth rate. This is a departure from Two-Growth DCF analyses the Commission has relied in the past, which have never incorporated a long-term GDP growth rate into the analysis.¹²⁴

957. XLI Witness LaConte employed the CAPM model as a check on the two-growth DCF analysis.¹²⁵

958. XLI asserts that evidence of various risk mitigation measures also supports an ROE of 8.96 percent or lower. The Company possesses various risk mitigation tools,

¹²² Ex. XLI-1 at 31 (LaConte Direct).

¹²³ Ex. XLI-1 at 23-26 (LaConte Direct).

¹²⁴

¹²⁵ Ex. XLI-1 at 19 (LaConte Direct).

including a variety of adjustment clauses, a sales true-up, and the MYRP itself, which together reduce the risk of Xcel under-recovering its revenue requirement.¹²⁶

959. Specifically, the Company is one of only seven other companies in the proxy group of 58 companies that holds six or more adjustment clauses.¹²⁷

960. Witness LaConte adjusted the results of her modeled ROE down by 50 basis points to account for the Company's risk, and ten basis points to account for concerns with the Company's provision of reliable billing and customer service.¹²⁸

¹²⁶ Ex.XLI-1 at 28-29 (LaConte Direct).

¹²⁷ Ex. XLI-1 at 29 (LaConte Direct).

¹²⁸ Ex. XLI-2 at 28 (LaConte Direct). The customer service issues were discussed in an earlier section of this Report.

i. Analysis

970. Having already determined that the ROE should be set based on consideration of some kind of financial modeling, it is necessary to assess which model or models should be relied on and, ultimately, how to use the model or models to determine the appropriate ROE in this proceeding.

971. The Commission has traditionally relied on DCF analyses in determining the allowed ROE. Specifically, the Commission has long relied on either Constant Growth DCF or Two-Growth DCF models, with consistent preference for the Two-Growth DCF for over the past decade.¹²⁹

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

The two-growth DCF model provides a fundamentally sound framework through which to analyze the Company's relative risk in relation to comparable companies, and through which to evaluate the Company's financial integrity and ability to attract investors in light of current as well as expected market conditions. This model is based on the financial theory that the current price of a stock equals the present value of all expected future dividends in perpetuity discounted by the appropriate cost of equity (i.e., the compensation for the risks associated with owning the stock). It uses growth forecasts to model dividend growth in years one through five, and then applies a different growth rate for years six and beyond, offsetting the limitations of the constant growth model, which assumes dividends are expected to grow at a constant rate over time.¹³⁰

[973.](#) For these reasons, the Commission should rely primarily on the Two-Growth DCF model when setting Xcel's ROE in this proceeding.

[974. Contradicting Commission precedent and preference, Company Witness Nowak improperly combined the Company's DCF analysis with the results of its CAPM, Risk Premium, and Expected Earnings analyses. To the extent Witness Nowak's ROE recommendation incorporates use of those methodologies, the ALJ should recommend little to no weight be given to the recommendation.](#)

[975. Following the Commission's guidance regarding the two-growth DCF method, XLI Witness LaConte built an ROE recommendation through use of three DCF models \(a Constant Growth, Two-Stage, and Multi-Stage\) and two CAPM analyses \(historical and projected\). The results of Witness LaConte's DCF analyses were a 9.56% ROE](#)

¹²⁹ Ex. Xcel-25 at 10-11 and Table 2 (Nowak Rebuttal).

¹³⁰ Xcel 2021 Rate Case Order at 89.

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

976. XLI's DCF analysis is similar to the two-step methodology used by the Federal Regulatory Energy Commission ("FERC"), which is used more commonly across the country.

977. While the Company asserts the Commission "has never incorporated a long-term GDP growth rate into the analysis,"¹³¹ XLI established during cross-examination that Witness Nowak's quote of the Commission's order from the last rate case on page 71 of his rebuttal testimony allegedly supporting this assertion was, in fact, the Commission summarizing the ALJ's recommendation to adopt a 9.87% ROE—not the Commission's decision to adopt a 9.25% ROE.¹³² Therefore, this assertion should have no bearing on the Commission's ROE determination.

978. Factors beyond purely financial comparability considerations should be included in the Commission's ROE analysis, and help the Commission understand whether or not the Company's current ROE is sufficient to attract capital and maintain financial integrity.

979. XLI's analysis introduces deliberation of several non-financial considerations that the Commission has recognized as important for determining an ROE. For example, XLI's analysis accounts for the Company's reduced risk based on its substantial use of adjustment clauses, sales true-up, projected test-year, and MYRP.

980. As demonstrated by applying the non-financial considerations accounted for in XLI's analysis (i.e., the Company's risk level), the Company has experienced no trouble in accessing capital at its current ROE. In fact, the Company's ability to enjoy record profits this year show that its current ROE is more than sufficient to attract capital and maintain financial integrity.

981. As stated in the Department's Initial Brief,

[b]etween 2010 and 2024, XEL's earnings per share attributable to NSPM increased 135%. And most recently from 2023 to 2024, Xcel similarly saw its net income increase approximately \$220 million. Then in October 2025, just as Xcel was claiming to the Commission it faced "substantial risk" in connection with its 2026 interim revenue

¹³¹ NSP Initial Br. at 33 (citing Ex. Xcel-25 at 71 (Nowak Rebuttal)).

¹³² Hearing Tr., Vol. 1, 62:11-65:3; 66:3-9.

deficiency, its stock reached a record high of \$83 per share.¹³³

982. The Company has admitted it has had no difficulty accessing capital with its existing ROE, stating “NSP has not experienced difficulties accessing capital markets since its last litigated base rate case.”¹³⁴ This evidence demonstrates an ROE of 9.25% has been at least adequate to allow the Company access to capital without having a negative impact on its financial integrity.

983. Furthermore, XLI presented persuasive evidence that an ROE of 8.96% would have no adverse impacts on the Company’s financial integrity, and instead would allow the Company to maintain values within rating agency guidance for applicable metrics.¹³⁵ This evidence demonstrates that NSP’s “credit metrics would still fall within the recommended ranges if the Commission authorizes my recommended 8.96% ROE.”¹³⁶

984. Based on the Commission’s explicit guidance that the DCF methodology is the best approach across methodologies, the Commission should focus the ROE determination on the two-growth DCF modeling results, and should rely on the Two-Growth DCF model performed by XLI.

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

973-986. -The Commission also recognizes “that relying too heavily on a single set of results from one model could inadvertently narrow the range of reasonable returns considered, needlessly eliminating relevant data from close examination.”¹³⁷

974-987. For this reason, it is important for the Commission to also give weight to at least one additional model in the record.

975-988. -One concern identified with the Two-Growth DCF methodology in this proceeding is the implicit assumption that the Company will grow faster than the GDP in perpetuity, thereby eventually outgrowing the entire economy. While the parties dispute the import of this implicit assumption, it nevertheless exists and is a weakness in the

¹³³ Department Initial Br. at 8 (footnotes omitted); CUB Reply Brief at 18 (“the Company’s ability to attract capital; that Xcel Energy, Inc’s stock price has since increased to an all-time record high”).

¹³⁴ Ex. XLI-8 at 9:12-10:1 (LaConte Surrebuttal) (citing NSP Response to XLI IR No. 40).

¹³⁵ See XLI Reply Br. at 5, Tables 1 and 2.

¹³⁶ Ex. XLI-8 at 9:6-8 (LaConte Surrebuttal).

¹³⁷ Xcel 2021 Rate Case Order at 89.

model.¹³⁸1056

976-989. The Department's Multi-Stage DCF model corrects this weakness by modeling an eventual convergence of the Company's growth to the long-term GDP growth rate.

977-990. -To be sure, there are problems with using the long-term GDP as the Department does. From 1947 through 2024, the utility sector as a component of GDP has grown at a faster compound average annual rate than the overall GDP growth rate.¹³⁹ Thus, while perpetual growth in excess of the GDP is an unreasonable assumption, the record does not support the Department's implicit assumption that convergence to the GDP growth rate will occur on the time horizon of 15 to 25 years.¹⁴⁰

978-991. In other words, while the Multi-Growth DCF analysis rectifies a modeling weakness of the Two-Growth DCF, this record also suggests that the Multi-Growth DCF represents an over-correction. Accordingly, the modeling results in this record suggest that Xcel's ROE should be set in the range of 8.71 percent (Department Surrebuttal Multi-Stage DCF)¹⁴¹ to 10.34 percent (Company Rebuttal Two-Growth DCF).

979-992. At the time of the Company's last rate case filing in October 2021, the 18-month trailing average authorized ROE for vertically integrated electric utilities was 9.52 percent. By the time of the Initial Filing in the current case, the average authorized ROEs increased by approximately 30 basis points to 9.83 percent and average returns have remained at that level through 2025.¹⁴² This implies that, all else being equal, an increase in the Company's ROE from its current level ~~is~~ may be appropriate.

980-993. At the time of the Company's October 2021 rate case filing, the average yield on the 30-year Treasury was 2.06 percent. By the time of the Initial Filing in the current

¹³⁸ Acknowledging a model's weakness does not invalidate its use as a key piece of evidence in this proceeding. As statistician George Box has written, "all models are wrong, but some are useful."

¹³⁹ Ex. Xcel-25 at 25-26 (Nowak Rebuttal).

¹⁴⁰ It bears noting that Xcel's Witness Nowak, in other proceedings, has recommended adoption of a Multi-Stage DCF model and asserted that long-term GDP growth rates are a commonly used proxy for long-term growth rates in regulatory proceedings. Ex. DOC-31 at 62, 69 (Nowak 2020 National Grid Direct); Ex. DOC-33 at 45, 52 (Nowak 2023 Central Hudson Direct). During cross-examination, Witness Nowak qualified previous testimony in other proceedings supporting his use of GDP growth rates in DCF analysis as "necessary due to precedent." Evidentiary Hearing Tr. Vol. 1 at 91 (Nowak). That being said, in his previous testimony, Mr. Nowak offered an unqualified "yes" when asked if the Multi-Stage DCF model "offer[ed] improvements" over the Two-Stage DCF model. Ex. DOC-33 at 45 (Nowak 2023 Central Hudson Direct).

¹⁴¹ Specifically, this figure is the result of the Multi-Stage DCF model that assumes convergence on long-term GDP growth rates after 25 years, which is a more reasonable assumption than the model with a ten year second stage. Due to the extended history of utilities growing at a higher rate than GDP, the longer assumption is more reasonable.

¹⁴² Ex. Xcel-25 at 3 (Nowak Rebuttal).

case, the average 30-year Treasury yield had risen to 4.54 percent and continued to increase to 4.88 percent in August 2025.¹⁴³ This also implies that, all else being equal, an increase in the Company's ROE from its current level is-may be appropriate.

~~981-994. These factors establish that the Company is entitled to an increase of some level to its existing 9.25 percent ROE.~~ This reduces the range of supportable unadjusted ROE figures to 9.25 percent to 10.34 percent.

~~982-995.~~ DCF results based on equity analysts' growth rates are affected by upward bias due to structural incentives motivating higher projected growth rates. While a court settlement that became effective in 2003 resulted in short-term reduction in this bias, the upward bias still exists.¹⁴⁴

~~983-996.~~ This upward bias, along with the Department's independent earnings analysis and the Company's demonstrated ability to access capital with its current 9.25 percent ROE, supports a conclusion that even though the Two-Growth DCF is the most reasonable analysis in the record, it overstates the appropriate ROE for Xcel.

~~997.~~ The record does not support XLI's proposed downward risk reduction adjustment of 50 basis points, based on the Company's reduced risk from its various risk mitigation tools, including a multitude of adjustment clauses, its sales true-up, its projected test-year, and the MYRP itself, which together facilitate NSP's rate increases for an additional year without filing a rate case. ~~This would be a dramatic adjustment to the Company's ROE. Further, of the companies in Xcel's proxy group, 47 percent allow fully or partially forecasted test years, 52 percent have full or partial decoupling mechanisms, and 82 percent have cost recovery mechanisms for capital adjustments. Thus, Xcel's purported reduced risk as compared to the proxy group is, at best, significantly overstated by XLI.~~

~~984-998.~~ In fact, of all 58 companies in the proxy group, only seven other companies held the same number of adjustment clauses as the Company (i.e., 6+ adjustment clauses).

~~985-999.~~ The record also does not support a downward risk adjustment of ten basis points for customer service issues, based on the extensive and egregious billing and customer service experienced by many of the Company's customers, including BOMA. ~~As previously discussed, there are other proceedings better suited to address those concerns. Also, a specific basis point adjustment based on these concerns, even if they were well-founded, would imply a level of analytical rigor not supported by the record.~~

~~986-1000.~~ The Department explained that Xcel's equity/debt ratio is higher than any of the members of the Department's proxy group. This is a sign that Xcel Energy, Inc.

¹⁴³ Ex. Xcel-25 at 4 (Nowak Rebuttal). (Noting that while there is an expectation for the Federal Reserve to decrease interest rates, consensus projections demonstrate that future reductions in the Fed Funds rate will primarily affect short-term rates, with long-term rates expected to remain near current levels.)

¹⁴⁴ Ex. DOC-13 at 17-20 (Addonizio Surrebuttal).

could be deploying a financial strategy known as “double leverage” by using debt to finance Xcel Energy, Inc.’s equity investments in subsidiaries, resulting in holding incremental debt at the parent level and ensuring a portion of the benefits accrue to shareholders, rather than customers.¹⁴⁵ While the Department did not oppose approval of Xcel’s proposed capital structure on this basis, the Department did recommend considering this factor in determining Xcel’s authorized ROE.¹⁴⁶

987-1001. The Department is correct that Xcel has a high equity/debt ratio, and that this ratio benefits shareholders at the expense of customers. Accordingly, the record supports consideration of this factor when deciding where, within the reasonable range of ROEs, the Commission should set the Company’s ROE.

j. ROE: Summary Conclusion, and Recommendation

988-1002. The Commission must provide an analysis based on facts in the record and must determine a fair rate of return which is supported by the record.¹⁴⁷

989-1003. As discussed in more detail above, the following findings inform the state of the record:

- a. Changing market conditions and ROE decisions around the country establish that the Company is entitled to an increase of some kind to its authorized ROE.
- b. The Two-Growth DCF analysis presented by the Company is the most reasonable estimate of the Company’s ROE in the record. The results of this model imply an ROE of 10.34 percent.
- c. The Company’s demonstrated ability to access capital with an ROE of 9.25 percent, concerns about analyst bias inflating modeling results, and the Department’s independent earnings estimates establish that, while it is the most reasonable analysis in the record, the Two-Growth DCF overstates the appropriate ROE for the Company.
- d. It is important to consider multiple models. The Commission should also give some weight to the Department’s Multi-Stage DCF analysis, the results of which imply an ROE of 8.71 percent because this model corrects a specifically identified shortcoming of the Two-Growth DCF Model, though the Multi-Stage DCF analysis’ own limitations

¹⁴⁵ Ex. DOC- at 28-30 (Addonizio Direct).

¹⁴⁶ Ex. DOC- at 32 (Addonizio Direct).

¹⁴⁷ “To peg an established rate to a rate advocated by any one of several expert witnesses is an arbitrary delegation of [the Commission’s] duty.” *Hibbing*, 302 N.W.2d at 11.

establish that the Multi-Stage DCF analysis understates the appropriate ROE.

e. The Commission should also give weight to XLI's DCF analysis given its consideration of non-financial considerations. Beyond financial analysis, it is equally important to consider the Company's ability to maintain its financial integrity and allow the Company to attract the capital necessary to provide safe and reliable service.

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

g. XLI's ROE properly relies on the use of three DCF models, and provides a strong basis from which the Commission should make its ROE determination.

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

990-1004. Applying these principles, none of the recommendations made by the parties XLI have sufficient support in the record to warrant adoption by the Commission. The Commission should reject these recommendations and instead authorize an ROE of 8.969-8 percent for the Company, which would incorporate a 50 basis point risk reduction and 10 basis point reduction for billing and customer service issues.

991. An ROE of 9.8 percent would:

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

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

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

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

e. ~~Incorporate an eight basis point flotation cost adjustment.~~

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

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

I. Class Cost of Service Study (CCOSS)

[992-1005](#). After a revenue requirement has been determined, the next steps are to determine how much revenue should be collected from each class, and how that revenue should be collected from each class. One of the tools used to guide this process is the CCOSS.

[993-1006](#). According to the to the National Association of Utility Commissioners, performing a CCOSS has three steps: (1) cost functionalization, (2) cost classification, and (3) cost allocation.¹⁴⁸ In the first step, costs are typically separated by function: (a) production or purchased power-related, (b) transmission-related, (c) distribution-related, (d) customer service and facility-related, and (e) administrative.¹⁴⁹ In the second step, once costs are separated by function, they are divided, or “classified,” based on the utility service components facilitated by that cost. At this stage, the relevant inquiry is whether the cost: (a) is demand-related, (b) is energy-related, or (c) is customer-related.¹⁵⁰ In the third step, these functionalized and classified costs are “allocated” to specific customer classes using specific parameters known as “allocation factors.”¹⁵¹

[994-1007](#). CCOSSes do not directly determine any component of the Company’s revenue or rate design. Rather, they are models that attempt to quantify the costs caused by various classes of customers, which is one factor for the Commission to consider when apportioning revenue between the customer classes. Accordingly, it is not necessary for the Commission to approve, adopt, or reject any individual CCOSS or any one component within the CCOSS. Rather, the Commission should analyze the relative merits of the various CCOSSes presented and apply that analysis when deciding how much weight to give those results when setting the Company’s revenue apportionment. [While the Commission may consider the relative merits of various CCOSSes, the Commission should also recognize that consistently giving more weight those studies that benefit the residential and general service classes, then deviating from those CCOSSes on revenue allocation decisions for the additional benefit of residential and general service classes, results in a consistent and excessive burden being placed on the C&I Demand class, as has happened in this proceeding, resulting in the significant deviation between the Company’s C&I Demand rates and the national average.](#)

[995-1008](#). The Company, the Department, the OAG, XLI, and SRA provided recommendations about the design of the CCOSS, which revealed several disputed design issues.

A. Classification of Fixed Production Plant

[996-1009](#). Fixed production costs refer to costs for generation plant, including non-fuel

¹⁴⁸ Ex. DOC-16 at 6 (Zajicek Direct).

¹⁴⁹ Ex. DOC-16, Schedule 1 at 18-19 (Zajicek Direct).

¹⁵⁰ Ex. DOC-16, Schedule 1 at 20-21 (Zajicek Direct).

¹⁵¹ Ex. DOC-16, Schedule 1 at 18-22 (Zajicek Direct).

O&M costs, that do not vary based on output.¹⁵²

997-1010. In this proceeding, Xcel used the stratification method to separate fixed production costs into demand- and energy-related subfunctions based on the cost of a comparable peaking plant.¹⁵³ Xcel has used the stratification method since the late 1970s.¹⁵⁴

998-1011. Under the stratification method, generation costs up to the amount of a comparable peaking plant are classified as demand-related and costs above that amount are classified as energy-related. These costs are in excess of the capacity-related portion, and as such, were not incurred to obtain capacity, but rather to obtain the lower-cost energy that such plants can produce.¹⁵⁵

1012. Stratification, when operating properly, is intended to benefit customers such that “classes allocated a higher per-kW non-fuel production costs via a properly designed demand allocator would benefit from the lower per MWh fuel and purchase power expense via a properly designed energy allocator.”

1013. Thus, when working as intended, “high-load-factor customers (customers who use more energy year-round) are allocated a proportionally larger share of fuel savings typically associated with the higher capital cost plants as a trade-off for being allocated a much higher percentage of production capital costs (i.e., “Capital Substitution”).”¹⁵⁶ However, the expected benefits that accompany Capital Substitution are absent in this proceeding.

1014. If Capital Substitution were occurring, “classes allocated a higher per kW non-fuel production costs via a properly designed demand allocator would benefit from the lower per MWh fuel and purchase power expense via a properly designed energy allocator.”¹⁵⁷ 183. That symmetry does not exist in this proceeding,¹⁵⁸ as demonstrated in XLI Witness Ly’s Schedule 1 (reproduced at Table 2 below), and therefore, the methodology is obsolete.

999-1015. As explained in Witness Ly’s Direct Testimony, Stratification assumes \$10,005 per kW (\$11,419 - \$1,414) of wind fixed costs are incurred to save fuel costs during the year, but wind and solar resources are intermittent because they are only available when the wind blows and sun shines. Thus, each resources’ availability lies outside the utility’s control, as opposed to capital intensive thermal resources that have

¹⁵² Ex. Xcel-74 at 11 (Barthol Rebuttal).

¹⁵³ Ex. Xcel-73 at 15 (Barthol Direct).

¹⁵⁴ Ex. Xcel-73 at 15 (Barthol Direct).

¹⁵⁵ Ex. Xcel-73 at 15 (Barthol Direct).

¹⁵⁶ Ex. XLI-3 at 9:11-13 (Ly Direct).

¹⁵⁷ XLI Initial Br. at 37.

¹⁵⁸ See Ex. XLI-3, Schedule 1 (Ly Direct).

higher capacity factors due to their full dispatchability.¹⁵⁹ “Because wind and solar are becoming an increasingly dominant portion of NSPM’s generation fleet, Stratification has become obsolete.”¹⁶⁰ ~~XLI argued that stratification is obsolete given the development of renewable energy on Xcel’s system. XLI disagreed with the stratification method’s classification of wind and solar plant as primarily energy-related because these resources cannot reduce fuel costs during portions of the year when they do not produce energy.~~¹⁶⁴ Instead of the stratification method, XLI supported classification of fixed production plant using the Average and Excess Four Coincident Peak (AED-4CP) method for allocating fixed production plant.¹⁶²

~~1000.1016.~~ XLI further argued that the AED-4CP method should be used in this case because the Commission has used this method for Minnesota Power, and the AED-4CP method has been used in other jurisdictions.¹⁶³

~~1001.1017.~~ The Department supported the stratification method, arguing that wind and solar resources “do not have fuel costs, and thus clearly are invested into in part to reduce fuel costs.”¹⁶⁴

~~1002.1018.~~ While the OAG raised concerns about the stratification method, it also concluded that the stratification method is superior to the AED-4CP method because the AED-4CP allocates costs associated with peaking capacity according to excess demand, which the OAG characterizes as a “mathematical construction, not a quantity that is directly observable in the electric system.”¹⁶⁵

~~1003.1019.~~ In Xcel’s last rate case, the Commission acknowledged that the Company was increasingly acquiring energy from solar- and wind-powered generators, but was not persuaded that this fact altered the applicability of the stratification method, finding that the stratification method “provides a sounder rationale for distinguishing between energy-related and capacity-related costs” than the AED-4CP method.¹⁶⁶

~~1020. Minnesota Power’s use of AED-4CP to allocate fixed production costs does not mean that it is the best measure of cost causation for the Company’s Minnesota system since Minnesota Power’s customer base is materially different than Xcel Energy’s and Minnesota Power has similar peaks in both the winter and summer months, while Xcel’s forecasted 2025 summer peak is 39 percent higher than its winter peak.~~¹⁰⁸² ~~These distinctions render the comparison to Minnesota Power unpersuasive.~~

1021. I find that the AED-4CP CCROSS provided by XLI is just and reasonable and the

¹⁵⁹ Ex. XLI-3 at 8:4-7 (Ly Direct).

¹⁶⁰ Ex. XLI-3 at 8:11-12 (Ly Direct).

~~¹⁶⁴ Ex. XLI-3 at 8 (Ly Direct).~~

¹⁶² Ex. XLI-3 at 8 (Ly Direct).

¹⁶³ Ex. XLI-3 at 14-15 (Ly Direct).

¹⁶⁴ Ex. DOC-18 at 4 (Zajicek Surrebuttal).

¹⁶⁵ Ex. OAG-9 at 4, 7, 9-10 (Scharber Rebuttal).

¹⁶⁶ Xcel 2021 Rate Case Order at 97.

only CCROSS in the record that should inform revenue allocation in this case.

1022. The AED-4CP methodology is a variation of the Average and Excess Demand allocation methodology, and the National Association of Regulated Utility Commissioners (“NARUC”) Manual recognizes this methodology as one that considers energy usage and more appropriately reflects cost causation.

1023. The AED-4CP is recognized explicitly in the NARUC CAM as considering energy usage in developing allocation factors, and as a method that more appropriately reflects cost causation.

1024. The AED-4CP methodology recognizes two critical cost drivers: “(1) off-peak loads do not drive a utility’s capacity needs to the same degree as on-peak loads; and (2) very highload-factor loads are quite flat, and have significantly lower variability than low-load-factor loads.”

1025. The method recognizes the Company operates its generating fleet as an integrated system, since the AED-4CP method “recognizes that load-following resources are an essential attribute of a reliable generation fleet and further, that certain customer classes require more loadfollowing resources than other classes.”

1026. Several other jurisdictions have adopted the AED-4CP method, including Arizona, Colorado, Kansas, Missouri, New Mexico, and Texas (note, NSPM affiliates, Public Service Company of Colorado and Southwestern Public Service Company, operate in three of these jurisdictions).

1027. The AED-4CP was also accepted by the Commission in Minnesota Power’s 2021 rate case.

1028. Despite the Company’s concerns that AED-4CP does not allocate production plant costs based on weighted hourly marginal energy costs, XLI’s CCROSSs need not consider marginal energy costs, since doing so would result in marginal energy costs causing production plant costs.

1029. The Company has not provided persuasive evidence that stratification is a more appropriate allocation methodology than AED-4CP.

1030. Given its prevalence in states where the Company operates, the Commission’s own adoption of the methodology, and evidence outlining the validity of the AED-4CP, I find that the XLI CCROSS should be the only one used to inform revenue allocation in this proceeding

1031. Further, the AED-4CP’s use of a pure energy allocator, without weighting for marginal energy costs, is unreasonable.¹⁰⁸³

~~1004.1032.~~ Because the stratification method ~~more accurately~~ inaccurately distinguishes energy-related and capacity-related costs, the Commission should give

more weight to CCOSSES that apply the stratification method than CCOSSES that apply the AED-4CP method rather than the stratification method.

C. Allocation of Demand-Related Transmission Costs

1023. The Company classifies transmission costs as both demand-related and energy-related.

1024. In its Order in the Company's last electric rate case, the Commission directed the Company to classify its transmission costs at 70 percent demand-related and 30 percent energy-related, and to allocate the demand-related transmission costs using a 12CP allocator.¹¹⁰⁶ The "CP" stands for coincident peak, and the 12 indicates the use of a coincident peak for each of the 12 months of the year.¹¹⁰⁷

1025. Accordingly, Xcel did not calculate the D10S allocation factor based on MISO's peak hour but instead calculated it using forecasted class loads during the six highest Xcel system peak hours.¹¹⁰⁸ The Company contends that "using forecast class loads for the six highest NSP System peak hours for the D10S allocator would encompass the MISO peak hour."¹¹⁰⁹

1026. The OAG argues that the 12 CP allocator continues to best reflect transmission demand cost causation and how Xcel is compensated for its transmission assets. In Xcel's last rate case, the Commission cited "growing acceptance of relying on a broader concept of peak demand" beyond just a single peak.¹¹¹⁰ The Commission also described the importance of transmission system reliability in all seasons of the year, not just on a single peak day. As the Commission explained, utilities tend to take generation assets offline for maintenance in the spring and fall, leaving the system vulnerable to unplanned outages.¹¹¹¹ Managing unplanned outages requires ensuring adequate transmission capacity year-round as the grid's supply and demand levels fluctuate.¹¹¹²

1027. The Company expressed concerns that that the 12CP allocator spreads demand-related costs of the transmission system to customers based on the average of the 12 coincident peaks in each month.¹¹¹³ In effect, the 12CP allocator is a measure of average demand. However, the Company states that it plans its system to meet peak demand – not average demand. If the Company did not plan its system to meet the highest peak demand, it would not be able to serve customers on that day. Department witness Zajicek and XLI witness Ly agreed with the Company's reasoning.¹¹¹⁴

1028. XLI [provided persuasive evidence argued](#) that using an E8760 allocator for the energy-related portion of transmission costs recognizes the reliability risks throughout the year and assigns costs to customers on that basis.¹¹¹⁵ XLI [properly](#) reasoned that it was not necessary to also accomplish this goal with the allocator for demand-related costs, as occurs with a 12CP allocator.¹¹¹⁶

1029. The Commission's reasoning [in Xcel's last rate case was sound should incorporate XLI's arguments related to the E8760 allocator, and recommends rejection of the Company's use of the E8760 allocator to allocate demand-related transmission costs](#). Continued use of the 12CP allocator addresses seasonal needs for system reliability and focusing on a single peak would fail to adequately address that reality.

B. Classification and Allocation of Other Production O&M

1071. The Production O&M costs that vary with energy usage are classified as energy-related, and the remaining costs are classified based on the type of production plant they are related to. This is referred to as the location method.¹⁶⁷ The Company has used this method since it was approved by the Commission in its 2013 rate case.¹⁶⁸

1072. XLI opposes the Company's classification of Other Production O&M and proposes that the Company change the methodology to classify regional market expenses and labor-related production O&M as demand-related, with the remaining costs classified as energy-related.¹⁶⁹

1073. I find that the Company's classification of Other Production O&M expenses is flawed because it also relies on stratification, and ignores that labor costs, which do not vary with energy costs, comprise a majority of other production O&M expenses. The Commission rejected XLI's same argument in the 2013 rate case, noting "it is not evident that classifying each O&M category as energy- or capacity-related based on whether the category is predominantly variable or fixed results in an accurate energy/capacity allocation."

1073-1074. The Commission should, consistent with its Order in Xcel's previous rate cases dating back to the proceeding filed in 2013, approve the Company's proposal for classifying and allocating Production O&M costs. These costs are incurred as a result of the generation resources and Xcel's proposed methodology aligns the costs with the generation to which they relate.

¹⁶⁷ Ex. Xcel-74 at 37-38 (Barthol Rebuttal).

¹⁶⁸ *In the Matter of the Application of Northern States Power Company for Authority to Increase Rates for Electric Service in the State of Minnesota*, Docket No. E002/GR-13-868, FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER at 68-69 (May 8, 2015) [hereinafter Xcel 2013 Rate Case Order].

¹⁶⁹ Ex. XLI-3 at 15-17 (Ly Direct).

c. CCROSS Summary and Conclusions

1083. A comparison of the different CCOSSES offered in this proceeding are summarized in the following table:¹⁷⁰

Party	Method	Residential	SCI Non-Demand	Demand	Lighting
OAG	Peak & Avg	3.5%	-8.9%	15.7%	28.7%
OAG	Basic Customer	5.8%	-8.5%	13.9%	31.3%
DOC	Basic Customer	9.6%	-11.8%	11.5%	26.9%
Xcel Energy	Hybrid	13.5%	-6.2%	8.3%	30.6%
SRA	Hybrid	13.5%	-6.1%	8.3%	29.3%
DOC	Hybrid	15.0%	-7.2%	7.3%	26.1%
XLI	Hybrid	16.1%	-2.0%	6.3%	19.9%

1084. As explained in the Findings above, all of these models merit some consideration when setting rates in this proceeding, but not all models should be weighed equally.

1085. The OAG's Peak-and-Average Model is entitled to significantly less weight than other models in the record because of theoretical shortcomings of that model. ~~Also, XLI's Hybrid model is entitled to significantly less the most weight because of its treatment of fixed production plant costs reliance on the AED-4CP method rather than the outdated stratification method.~~

1086. The Commission should give the most weight to the ~~Hybrid models~~ proposed by ~~the Department and Xcel~~XLI as well as the Basic Customer models presented by the Department and the OAG. These CCOSSES reflect a variety of modeling decisions and assumptions that, as described above, are meritorious and defensible despite their respective flaws. Accordingly, the Commission should consider these models when evaluating the cost-causation of various customer classes. In doing so, the Commission should recognize that none of the models produce a result that can be said to be an objectively accurate reflection of class cost-causation. Any revenue apportionment result

¹⁷⁰ Ex. Xcel-75 at 8 and Table 2; Ex. OAG-10 at 38 (Scharber Surrebuttal). This chart shows the results of the various models in this proceeding using the Company's 2026 Rebuttal Revenue Requirement.

that falls within the results of these models can be said to be “at cost” to the extent cost can be fairly determined on this record.¹⁷¹

¹⁷¹ Certainly, the differences in the implied revenue responsibility of various classes shifts substantially based on which of these four models is being used, especially when considering the amount of revenue the Company seeks to recover through this proceeding. But this observation does not change the underlying determination that the unavoidable limitations of CCROSS modeling cannot support a more precise determination of class cost-causation.

II. Rate Design

A. Revenue Apportionment

1091. Revenue apportionment is the first step of rate design.¹⁷² After costs are allocated among customer classes (revenue requirement), each customer class is assigned a percentage of the total retail rate revenue requirement as approved by the Commission.¹⁷³ When determining the revenue apportionment among customer classes, the Commission has considered the range of cost allocations and a variety of non-cost factors to inform the final revenue apportionment.¹⁷⁴

1092. The starting point of the Company's revenue requirement was the Company's Hybrid Minimum System CCOSS. From this starting point, the Company proposed to move all classes 20 percent towards cost, as determined by its CCOSS. The Company proposed to limit the movement towards cost to 20 percent in consideration of rate continuity and customer understanding.¹⁷⁵

1093. The results of the Company's revenue apportionment proposal are shown in the following table:¹⁷⁶

¹⁷² Ex. DOC-19 at 18 (Bahn Direct).

¹⁷³ Ex. DOC-19 at 18 (Bahn Direct).

¹⁷⁴ Ex. DOC-19 at 19 (Bahn Direct).

¹⁷⁵ Ex. Xcel-76 at 11 (Paluck Direct).

¹⁷⁶ Ex. Xcel-78 at 3, Table 1 (Paluck Surrebuttal).

Proposed Revenue Apportionment with Company Adjustments		
Class	Revenue Apportionment	Apportionment Factors
TY 2025		
Residential	\$1,516.98	40.12%
Non-Demand	\$124.54	3.29%
C&I Demand	\$2,105.20	55.68%
Lighting	\$34.14	0.90%
Total Retail	\$3,780.85	100.00%
PY 2026		
Residential	\$1,616.05	40.46%
Non-Demand	\$135.69	3.40%
C&I Demand	\$2,206.41	55.24%
Lighting	\$35.95	0.90%
Total Retail	\$3,994.09	100.00%

1094. The Department, Walmart, and the SRA all supported the Company's 2025 revenue apportionment.¹⁷⁷

1095. XLI recommended a different revenue requirement that would result in a lower increase for Demand classes, and a [larger proportionate](#) increase for other classes. XLI's argument is primarily based XLI's CCROSS. XLI argues that the Commission must take action to ensure that industrial rates are five percent below national averages, based on the goal established in Minn. Stat. § 216C.05.¹⁷⁸ XLI also argues that Xcel's recommendation to move 20 percent toward cost would increase, rather than decrease, inter-class subsidies. XLI recommends moving nearly all the way to its determination of cost, while mitigating individual class increases such that no customer class would receive an increase that exceeds 150 percent of the system average.¹⁷⁹

1096. The OAG also presented a revenue apportionment proposal. The OAG's allocation analysis began by using an average of the cost-share results from the OAG's three CCROSSes (Basic Customer CCROSS, Peak and Average CCROSS, and the OAG's

¹⁷⁷ Ex. DOC-20 at 5 (Bahn Surrebuttal); Walmart Initial Brief at 10-11; SRA Initial Brief at 3-4.

¹⁷⁸ This argument ignores that XLI's proposal would violate this goal with respect to the residential class.

¹⁷⁹ Ex. XLI-3 at 33-34 (Ly Direct).

Minimum-System or Hybrid CCOSS).¹⁸⁰ The OAG used an equally weighted average to reflect the Commission's preference for considering a range of classification methods.¹⁸¹

1097. The OAG then determined it was appropriate to have no rate increase for Small General service in both 2025 and 2026 under Xcel's currently requested revenue requirement, because even if Xcel's full Rebuttal revenue requirement were authorized, all three of the OAG's CCOSSES showed that consideration of cost would imply a rate reduction for this class.¹⁸²

1098. The OAG ~~also considered~~ did not appropriately consider the ability to pass on energy costs. Customer classes have varying abilities to pass on costs. C&I customers experience rate shock just as any other customer class does. Commercial and industrial customers are generally able to pass on the costs of an input, like electricity, to their own customers to some degree. "Increased competition limits industrial customers' ability to pass on higher electricity costs. Therefore, significant rate increases negatively impact C&I customers' ability to compete both at home and abroad. Larger firms with more monopoly power, facing a less elastic demand curve, may be able to pass along costs to a higher degree. Smaller businesses in a more competitive market, on the other hand, will generally be less able to pass along costs, if their customers can substitute away from their product or service[.]"¹⁸³ ~~customers cannot pass on price increases to any degree, and options for substituting away from electricity are limited.~~¹⁸⁴

1099. The OAG ~~also considered~~ did not appropriately consider the ability to pay of various customer classes. The OAG points to information in the record regarding the current inability of many residential customers to pay their bills. This is shown by energy burden, historic disconnection levels, historic levels of arrears, and persistent inflation. Several witnesses, from multiple parties, offered testimony on these issues.¹⁸⁵ However, the OAG ignores that the pressures of interclass subsidies significantly impact C&I customers, who are subject to constraints from increased global and domestic competition. As previously stated, C&I customers are also impacted by rate shock, and having a decreasing ability to pass on higher electricity costs.

1099-1100. The impact of interclass subsidies on C&I customers, as well as their equal susceptibility to rate shock, warrant heavy consideration as the Commission

¹⁸⁰ Ex. OAG-10 at 38-39 (Scharber Surrebuttal).

¹⁸¹ Ex. OAG-10 at 38-39 (Scharber Surrebuttal).

¹⁸² Ex. OAG-10 at 38-39 (Scharber Surrebuttal).

¹⁸³ ~~Ex. OAG-8 at 36 (Scharber Direct). Witness Scharber agreed, however, that the ability of large industrial customers to pass on price increases should be balanced against considerations of whether large customers will move towards self-generation or move out of Xcel's service territory if prices increase sharply. Ex. OAG-8 at 37-38 (Scharber Direct). Ex. XLI-6 at 22:20-23:2 (Ly Rebuttal).~~

¹⁸⁴ ~~Ex. OAG-8 at 36-37 (Scharber Direct).~~

¹⁸⁵ See generally, e.g., Ex. OAG-8 at 38-41 (Scharber Direct); Ex. OAG-1 at 27-32 (Hinderlie Direct); Ex. CUB-3 (Levenson-Falk Direct); Ex. CUB-8 (Levenson-Falk Surrebuttal); Ex. JIN-2 (Chan Direct); Ex. JIN-5 (Chan Surrebuttal); Ex. DOC-22 at 3 (Schmitz Rebuttal).

[weighs rate design options.](#)

[4100.1101.](#) The OAG’s analysis showed that customers with lower incomes have a high “energy burden,” the portion of household income devoted to paying gas and electric bills.¹⁸⁶ An energy burden above six percent is considered high, while above ten percent is considered severe.¹⁸⁷ The total energy burden for Minnesota households below the federal poverty level is about 22 percent, with an electricity-specific energy burden of 12 percent.¹⁸⁸ Even for the 19 percent of Minnesota households with incomes below 200 percent of the federal poverty level, a significant number of Minnesotans live with a high or severe energy burden.¹⁸⁹ In the metro area specifically, where Xcel’s residential customers are concentrated, low-income customers¹⁹⁰ struggle with significant energy burdens at a median of 7.2 percent, while a quarter of low-income households in the metro area were found to have “severe” energy burdens, above 14 percent.¹⁹¹

Table 7
OAG Recommended Apportionment at Xcel’s Proposed Revenue Requirement

Customer Class	OAG Proposed Class Shares	Class Revenues at Xcel’s Proposed Revenue Requirement (\$000s)	Class Increases at Xcel’s Proposed Revenue Requirement Under OAG Apportionment	
			(\$000s)	%
2025: Based on Xcel’s proposed revenue requirement of \$3,780,853				
Residential	38.87%	\$1,469,748	\$41,741	2.9%
Small General	3.16%	\$119,617	\$0	0.0%
Large General	57.06%	\$2,157,295	\$161,564	8.1%
Lighting	0.90%	\$34,193	\$2,918	9.3%
Total	100.00%	\$3,780,853	\$206,223	5.8%
2026: Based on Xcel’s proposed revenue requirement of \$3,994,095				
Residential	39.01%	\$1,558,246	\$97,783	6.7%
Small General	3.18%	\$126,894	\$0	0.0%
Large General	56.91%	\$2,272,943	\$261,167	13.0%
Lighting	0.90%	\$36,012	\$4,458	14.1%
Total	100.00%	\$3,994,095	\$363,408	10.0%

[4101.1102.](#) The results of the OAG’s revenue apportionment are shown in the following table:¹⁹²

[4102.1103.](#) The Company ~~and XLI~~’s revenue apportionment ~~both~~ selects a single CCROSS and drive towards cost according to their respective models, generally adjusting

¹⁸⁶ Ex. OAG-8 at 38-39 (Scharber Direct).

¹⁸⁷ Ex. OAG-8 at 39 (Scharber Direct).

¹⁸⁸ Ex. OAG-8 at 39 (Scharber Direct).

¹⁸⁹ Ex. OAG-8 at 39 (Scharber Direct).

¹⁹⁰ In this context, low-income was defined as 80 percent of median income. See Ex. OAG-8 at 39 (Scharber Direct).

¹⁹¹ Ex. OAG-8 at 39-40 (Scharber Direct).

¹⁹² Ex. OAG-10 at 40, Table 7 (Scharber Surrebuttal).

only to reduce some class increases in order to mitigate rate shock. ~~This is problematic for two reasons.~~

~~1104. XLI's revenue apportionment recommendation appropriately accounts for C&I customers' finite ability to pass on higher electricity costs, and are impacted significantly by interclass subsidies on the Company's system.¹⁹³~~

~~1105. Minimizing interclass subsidies is important and provides benefits to the Company and its customers by promoting efficiency, stability, and conservation, while ensuring all customers have just and reasonable rates.¹⁷⁰ The avoidance of interclass subsidies comports with Minn. Stat. § 216B.03.~~

~~1103-1106. Additionally, avoiding rate shock and cost of service are two significant factors the Commission considers when determining rates—the Commission has long supported moving rates to cost.¹⁹⁴ Such considerations assist in producing appropriate price signals for customers, and ensure equal treatment of customers while promoting engineering efficiency and stability.¹⁹⁵~~

~~1104-1107. The Company's contention that its proposal to allocate its requested base revenue increase will move customer classes 20% toward cost-based rates is flawed. In fact, C&I Demand customers' subsidies to the Residential and Lighting class would increase under the proposal.¹⁹⁶~~

~~1108. First, as previously discussed, limitations of the modeling process make it perilous to assume that any one model provides a true representation of cost. This concern is especially pronounced with respect to XLI's proposed revenue apportionment, which relies on a model that is more flawed than Xcel's. The revenue allocation in this proceeding should move customers closer to cost of service under a valid CCOSS. Moving customer rates closer to cost provides benefits to the Company and its customers, and comports with Commission precedent.~~

~~1105-1109. Endorsing or giving greater weight to CCOSSs that favor smaller load and lower load-factor customers (i.e., the residential and general service classes), and then deviating from those CCOSSs for the benefit of those smaller load and lower load-factor customers (or effectively recommending that rates be set based on extreme CCOSS, as the ALJ did here), will result in the discrepancies between the Company's rates and bills and the national average, contravening state directives on affordability.¹⁹⁷~~

~~1106-1110. Second, notwithstanding concerns about whether cost can be truly ascertained, by recommending that revenue apportionment move towards cost, adjusted only to mitigate rate shock, XLI and the Company implicitly argue for the Commission to disregard any other considerations that it has historically and appropriately considered~~

¹⁹³ XLI Initial Br. at 46-47.

¹⁹⁴ Ex. XLI-3 at 28:18-19 (Ly Direct).

¹⁹⁵ Ex. XLI-3 at 29:16-22 (Ly Direct).

¹⁹⁶ Ex. XLI-3 at 31:12-16 (Ly Direct).

¹⁹⁷ Minn. Stat. § 216B.05, subd. 2(4).

when setting revenue apportionment.¹²⁰⁵ Effectively, XLI and the Company both ask the Commission to consider only cost of service and rate shock when making this decision. XLI's CCROSS is the only one that would satisfactorily move customer rates closer to cost. Given the Company's serious departure from the state's goal to set rates at least 5% below the national average for all customer classes, revenue allocation should be based on cost of service.

~~4107.1111. Adjusting the Company's revenue apportionment in an attempt to harmonize it with the results of any specific model would presume a level of precision, objectivity, and accuracy in the modeled estimates that the record does not support. Instead, the Commission should recognize that when apportioning revenue, it exercises quasi-legislative authority. Thus, the Commission should also consider the other non-cost considerations that it has historically relied on to select the revenue apportionment proposal that advances the Commission's various legitimate policy objectives. The OAG's recommendation accomplishes this.~~

~~4108. One key weakness of the OAG's recommendation is the extent to which it is weighted by the Peak and Average model. That said, the OAG's apportionment recommendation still falls within the range of results of its Basic Customer and Minimum System cost estimates for both the Residential and Large General Service classes. These are both defensible CCROSSes methodologies, which renders the OAG's proposal a cost-based recommendation. It is further reasonable to exclude the Small General Service class from any increase based on the persuasive evidence that that class is already paying significantly above cost as estimated by a range of models.¹²⁰⁶~~

~~4109.1112. 4107. Unlike XLI and the Company, the OAG's proposal also reflects consideration of ability to pay and ability to pass on costs. These factors are also relevant to revenue apportionment determinations, as evidenced by previous Commission and judicial determinations.¹²⁰⁷~~

~~4110.1113. For these reasons, the Commission should adopt the OAG's XLI's revenue apportionment recommendation as the proposal in the record that most faithfully balances cost of service with other relevant factors for apportioning revenue.~~

~~4111.1114. The Company proposed to establish one revenue apportionment for the 2025 Test Year and a different apportionment for the 2026 Plan Year. The Company argued that there are different costs and revenues in each of the years, and particularly pointed to an increase in forecasted sales to the C&I Demand class. Because of this change, the Company asserted that it is important to update the revenue apportionment for the 2026 Plan Year.¹⁹⁸~~

~~4112.1115. The OAG ultimately agreed that different revenue apportionments for the 2025 Test Year and 2026 Plan year were appropriate, as reflected in the OAG's~~

¹⁹⁸ Ex. Xcel-77 at 6 (Paluck Rebuttal).

recommended apportionment.¹⁹⁹

~~1113.~~1116. The Department, primarily relied on previous Commission decisions which established only one revenue requirement for a MYRP.²⁰⁰

~~1114.~~1117. The Commission should adopt different the different revenue apportionments recommended by the OAG for the 2025 Test Year and 2026 Plan Year.

¹⁹⁹ Ex. OAG-10 at 38, 43.

²⁰⁰ Ex. DOC-19 at 24-25 (Bahn Direct); Ex. OAG-8 at 45 (Scharber Direct).

F. Super Large Customer Tariff

1176. Adjudication of the merits of this issue is not appropriate here. As a practical matter, there is no record evidence that the Company will receive revenues from super-large customers in either the 2025 Test Year or 2026 Plan Year. Thus, a revised CCROSS addressing those customers will not impact the rate determinations made in this proceeding.

During the pendency of this rate case, the Commission approved Xcel's Large Customer Tariff in Docket No. E-002/M-25-289, and Xcel has also filed an Electric Service Agreement for service to Google under that tariff. Accordingly, it is possible that Xcel could receive revenues from this new large customer in the 2026 Plan Year, or perhaps worse, Xcel will begin to receive these significant revenues immediately after the Plan Year has closed. The Commission should rectify this possible over-recovery of the revenue requirement issued in this case, and require Xcel to track any new revenues associated with this new customer class for possible refund to ratepayers, and it should require Xcel to file a new rate case after one year of service to any customer in the new class, or demonstrate why such rate case filing is unnecessary.

CONCLUSIONS OF LAW

1. The Commission and the Administrative Law Judge have jurisdiction to consider this matter under Minn. Stat. § 14.50 and Minn. Stat. §§ 216B.08, .09, .15, and 16 (2024).
2. The public and parties received proper and timely notice of the hearing and Xcel complied with all procedural requirements of statute and rule.
3. Every rate set by the Commission shall be just and reasonable. Rates shall not be unreasonably preferential, unreasonably prejudicial or discriminatory, but shall be sufficient, equitable and consistent in application to a class of consumers.²⁰¹
4. To the maximum reasonable extent, the Commission shall set rates to encourage energy conservation and renewable energy use and to further the goals of Minn. Stat. §§ 216B.164, 216B.241 and 216C.05 (2024).²⁰²
5. The burden of proof is on the public utility to show that a rate change is just and reasonable.²⁰³ Any doubt as to reasonableness should be resolved in favor of the consumer.²⁰⁴
6. The record supports the resolution of the matters set forth in Xcel's Initial Filing that are uncontested, settled, or resolved. These matters have been resolved in the public interest and are supported by substantial evidence.
7. Rates set in accordance with this Report would be just and reasonable.
8. Any Findings of Fact more properly designated as Conclusions of Law are hereby adopted as such.

Based upon these Conclusions of Law, and for the reasons explained in the accompanying Memorandum, the Administrative Law Judge makes the following:

RECOMMENDATIONS

1. ~~The Company is entitled to increase gross annual revenues in accordance with the terms of this Report.~~
2. The text of the Findings and Conclusions should govern the mathematical and computational aspects of the Findings and Conclusions. The computations should be adjusted so as to conform to the Findings and Conclusions contained in the Report.
3. The Commission should incorporate the agreements made by the parties in the course of this proceeding into its Order.

²⁰¹ Minn. Stat. § 216B.03.

²⁰² Minn. Stat. § 216B.03.

²⁰³ Minn. Stat. § 216B.16, subd. 4.

²⁰⁴ Minn. Stat. § 216B.03.

4. The Commission should adopt the recommendations set forth in the Findings of Fact above.

5. The Commission should order the Company to make further compliance filings regarding rates and charges, rate design decisions, and tariff language necessary to implement the recommendations set forth in this Report.