

Staff Briefing Papers

Meeting Date December 11, 2025 Agenda Item 4**

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

Docket No. G-002/M-25-403

In the Matter of the Application of Xcel Energy's Petition for Approval of Gas State Energy Policy Rider Recovery with True-Up Mechanisms

Issues

- 1. Should the Commission approve Xcel's proposed SEP Rider Recovery to establish baseline for \$46.3¹ million effective January 1, 2026, subject to true-up to actual 2026 expenses?
- 2. Should the Commission approve Xcel's proposed Capital True-up for 2026 through the existing SEP Rider?
- 3. Should the Commission approve Xcel's proposed Property Tax True-up for 2026 through the existing SEP Rider?
- 4. Should the Commission approve Xcel's proposed Labor Cost Recovery for 2026 through the existing SEP Rider?
- 5. Should the Commission approve Xcel's proposed Damage Prevention Recovery for 2026 through the existing SEP Rider?
- 6. Should the Commission approve Xcel's proposed Manufactured Gas Plant (MGP) Costs for 2026 through the existing SEP rider?

¹ Xcel's initial baseline amount was \$46.3 million. In its November 17, 2025 Reply Comments, the Company revised this amount to \$44.9 million to correct the Property Tax expense.

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7. Should the Commission approve Xcel's request to leave its base rates unchanged in 2026 and to withdraw its application for a general rate increase in Docket No. G-002/GR-25-356?

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✓ Relevant Documents	Date
Xcel Energy – Initial Filing	October 31, 2025
Department of Commerce – Comments	November 12, 2025
Citizens Utility Board of Minnesota - Comments	November 12, 2025
Office of the Attorney General – Comments	November 12, 2025
Xcel Energy – Reply Comments	November 17, 2025
LIUNA Minnesota/North Dakota – Reply Comments	November 18, 2025



Table of Contents

I. II.	BACKGROUNDDiscussion	
п. А.	Xcel Energy – Initial Filing	
В.	Department of Commerce – Comments	4
:	1. Legal Issues	4
2	2. Responses to Commission Notice	4
3	3. Additional Commentary	7
C.	Office of Attorney General – Comments	8
D.	Citizen's Utility Board – Comments	9
:	1. Introduction	9
:	2. Applicable Legal Standard	9
3	3. Proposal to Expand Use of the SEP Rider, and Prudence Review	. 10
E.	Xcel Energy – Reply Comments	. 11
	Legal Issue - The Commission Has Authority to Approve The Proposed SEP Rider Petition	. 11
;	2. Cost Components	. 11
3	3. True-Up Mechanism	. 12
F.	LIUNA – Reply Comments	. 15
III. IV.	STAFF ANALYSIS DECISION OPTIONS	



I. BACKGROUND

On October 31, 2025, Northern States Power Company d/b/a Xcel Energy (Xcel or The Company) filed a general rate case² with the Minnesota Public Utilities Commission (Commission) requesting a \$63.4 million annual increase, or 8.2 percent, to its Minnesota retail natural gas rates, effective January 1, 2026. If the Commission elected to suspend the proposed rate increase, the Company requested an interim rate increase of \$51.47 million, or 6.8 percent, effective January 1, 2026.

On October 31, 2025, as an alternative to litigating its rate case proceeding in Docket No. G-002/GR-25-356, Xcel Energy filed a proposal requesting to establish a \$46.3 million baseline amount for certain incremental 2026 costs through the SEP (State Energy Policy) Rider effective January 1, 2026, with a true-up to 2026 actual expenses (whether higher or lower than estimated) for each of the components, effective until the Company's next gas rate case. If the Proposal is accepted, Xcel committed to withdrawing its rate case that was filed on October 31, 2025, and would not file a new rate case until on or after October 30, 2026.

On November 12, 2025, the Minnesota Department of Commerce, Division of Energy Resources (Department), the Minnesota Office of Attorney General, Residential Utilities Division (OAG), and the Citizens Utility Board of Minnesota (CUB), filed comments recommending that the Proposal be denied.

On November 17, 2025, Xcel filed reply comments reaffirming its request for approval of the SEP Rider Petition, including all components, with a revised baseline amount of \$44.9 million, as a reasonable alternative to a fully litigated rate case.

On November 18, 2025, LIUNA Minnesota/ North Dakota (LIUNA) filed reply comments emphasized that the law provides the Commission broad authority to approve rate recovery mechanisms that advance the public interest and result in just and reasonable rates, including the use of riders and expressed general support for Xcel's SEP proposal.

II. Discussion

A. **Xcel Energy – Initial Filing**

In its proposal, Xcel Energy requested approval to establish a baseline for incremental 2026 costs through the SEP Rider, effective January 1, 2026, with a true-up to actual 2026 expenses for each component. This baseline would remain in effect until the next gas rate case. The SEP Rider would recover the incremental costs of:

- Capital revenue requirements \$25.5 million.
- Property taxes \$10.5 million.

² Docket No. G-002/GR-25-356, which is also scheduled on this agenda meeting.

- Gas distribution, plant, and transmission operations labor costs \$6.1 million.
- Damage Prevention expenses \$3.8 million.
- Manufactured Gas Plant site clean-up costs \$0.4 million.

Xcel stated that the total proposed recovery of \$46.3 million compares favorably to both the requested \$63.40 million in final rates and the proposed \$51.47 million interim rate increase.

Xcel Energy's Proposal would result in an increase for the average residential customer of \$2.69 per month or \$32.29 per year, as illustrated in Table 1 below.

Table 1 – Xcel Energy's Proposed Gas SEP Rate Factor – Residential Bill Impact ³					
	Revenue Requirement Test Period	2026			
	Test Year Project Revenue Requirement	\$46,329,264			

Average Residential bill impact / Year	\$32.29
Average Residential bill impact / Month	\$2.69
Gas Rate / therm	\$0.037730
Therms for Rate	1,227,923,665
Test Year Project Revenue Requirement	\$46,329,264
Revenue Requirement Test Period	2026

Additionally, Xcel requested approval to track Property Tax and Damage Prevention costs above or below the 2026 baseline amount after the end of the 2026 calendar year, for review in a future rate case. If the Commission approves the Petition, the Company will withdraw the current rate case; however, noted that its Revenue Decoupling Mechanism (RDM) implemented in its 2021 gas rate case⁴ would continue until the implementation of final rates in a future rate case, consistent with the settlement terms in the 2023 rate case.⁵

Xcel indicated that the Proposal's purpose is to offer an alternative to a fully litigated rate case, avoid a base rate increase, ensure neither over- or under-recovery, free resources for stakeholders, and preserve the financial health of the Company to continue providing safe, reliable, and affordable natural gas service.

a. Capital True-Up

The Company proposed to implement a SEP Rider capital true-up mechanism effective January 1, 2026, which is designed to ensure that the recovery of capital-related revenue requirements does not exceed actual costs. This mechanism establishes a baseline based on the incremental forecasted 2026 capital revenue requirements relative to the 2024 base rates. Xcel noted that the key investments driving these requirements are fire suppression systems, a new gas plant control room, and capacity upgrades to Xcel Energy gas facilities, which together comport with state policy to support safe and reliable service to natural gas customers.

³ Xcel's Petition, Table 1, pg. 7

⁴ Docket No. G-002/GR-21-678.

⁵ Docket No. G-002/GR-23-413.



The associated depreciation expense included in the Company's proposed \$25.5 million aligns with the Company's proposed rates from its 2024 Annual Depreciation Review (Docket No. E-002/D-23-356)⁶ and the recent rate case (Docket No. G-002/GR-25-356).⁷ The Company is specifically requesting Commission approval for new gas depreciation rates to be effective on January 1, 2026, and new common rates effective January 1, 2025. Under the true-up, customers will either receive refunds if actual capital costs fall below the baseline or pay additional amounts if costs exceed it.

b. Property Tax True-Up

Xcel requested approval to modify the existing property tax true-up by moving recovery of 2026 property taxes, currently estimated at \$10.5 million to the SEP Rider, effective January 1, 2026, with a true-up to actual costs, and continuing the Property Tax tracker until the next gas rate case. Xcel explained that property taxes are driven by capital investments, which are in turn driven by our customers' need for safe and reliable service and contribute to local economic health. The Company also noted that the last two gas rate cases included a property tax true-up to defer any amounts by which actual costs differed from the baseline.

c. Labor Cost Recovery

The Company requested approval to recover an estimated \$6.1 million in 2026 incremental labor costs for gas distribution, plant, and transmission operations through the SEP Rider. These increases are driven by several factors, including wage adjustments under collective bargaining agreements with International Brotherhood of Electrical Workers locals, the need to remain competitive for talent, and additional internal staff to support critical customer-serving infrastructure. If the Petition is approved, the Company will use the \$6.1 million estimate as a baseline, comparing it to actual 2026 results to determine whether a customer refund or surcharge is necessary via the SEP Rider. Consistent with other components of the proposal, the resulting SEP Rider rate will remain in effect until the Company files its next gas rate case.

d. Damage Prevention Recovery

Xcel requested approval to recover an estimated \$3.8 million in incremental Damage Prevention costs incurred in 2026 through the SEP Rider. The Company stated that the Damage Prevention Program is essential for public safety, service reliability, and environmental protection, helping excavators and customers locate underground infrastructure in compliance with Minnesota's Gopher State One Call (811) laws (Minn. Stat. Ch. 216D). The program relies on both internal labor and contractors, and costs have increased due to vendor contract adjustments and a growing number of locates across the service territory. The Company will use the \$3.8 million as a baseline, comparing it to actual 2026 results to determine whether a customer refund or surcharge is required through the SEP Rider. The Company also requests

See Docket No. E-002/D-23-356., September 9, 2024 Filing

⁷ See Docket No. G-002/GR-25-356

approval to establish a tracker for amounts above or below the 2026 baseline for future years, subject to review in a subsequent gas rate case.

e. Manufactured Gas Plant Costs

Xcel requested approval to recover actual incremental Manufactured Gas Plant (MGP) costs, currently estimated at \$0.4 million in 2026, through the SEP Rider. These costs are incurred to resolve environmental claims related to historical MGP sites by investigating and remediating them, protecting human health and the environment. Based on historical spending and planned work at five Minnesota MGP sites, the total 2026 MGP expenses are estimated at \$1.1 million. Since the annual MGP costs are highly variable due to factors like potential insurance recoveries, recovering the \$0.4 million incremental expense via the SEP Rider, subject to a trueup against actual 2026 costs, will help manage this variability and support necessary remediation.

В. **Department of Commerce – Comments**

1. **Legal Issues**

The Department expressed concerns about Xcel's ability to recover its proposed costs through the SEP Rider, emphasizing that the rider appears intended only for expenses explicitly authorized by the legislature.⁸ If the proposed costs do not fit into a legislatively authorized category, the Department is uncertain whether recovery through the SEP Rider is allowed.

Additionally, the Department noted that some of the statutes underlying the SEP Rider have expired or been repealed, and therefore requested that Xcel provide statutory justification for the proposed cost recovery in its Reply Comments.

2. **Responses to Commission Notice**

a. Xcel's Proposed SEP Rider Cost Recovery - \$46.3 million

The Department recommended that the Commission deny Xcel's proposed SEP Rider and True-Up Mechanism for 2026, noting that Xcel had not provided support for either its proposed or actual expenses associated with the SEP Rider components.

The Department indicated that Xcel calculated its proposed SEP Rider costs by comparing the approved 2024 test-year expenses from the 2023 rate case with the proposed 2026 test-year expenses in the 2025 rate case, but it did not provide support for either the proposed or actual expenses associated with the SEP Rider components.

Additionally, the Department asked Xcel to provide 2024 actuals and year-to-date October 2025 expenses for both the total Company and Minnesota within each true-up component, along

⁸ Department Comments, at 2 (See, e.g., Minn. Stat. §§ 216C.052, subds. 2(d), subd. 3, 216B.1645, subds. 2(a), 4(a), 4(c).)

with support for the allocator used, in its Reply Comments.

b. Xcel's Proposed Capital True-Up - \$25.5 million

The Department stated that Xcel provided no evidentiary support or prior Commission approval for the proposed capital investments such as fire suppression systems, a new gas-plant control room, and capacity upgrades. Accordingly, the Department recommended that the Commission deny Xcel's proposed capital true-up for 2026 under the SEP Rider.

The Department observed that Xcel's proposed \$25.5 million capital true-up is based on comparing the approved 2024 test year amounts with the forecasted 2026 capital revenue requirement, and that this true-up is the primary driver of the SEP Rider components.

The Department stated that although Xcel – Electric's 2019 stay-out proposal⁹ with a capital true-up was approved, it differs from the current petition. Under the 2019 stay-out, ratepayers received refunds if actual capital expenditures fell below forecasts, while Xcel would not be allowed to recover additional revenue if capital spending exceeded projections. Additionally, the stay-out preserved existing base rates and did not authorize any additions to the rate base or adjustments to operating expenses.

c. Xcel's Proposed Property Tax True-Up – \$10.5 million

The Department recommended that the Commission deny Xcel's proposed 2026 property tax true-up and require Xcel to continue tracking property tax adjustments through the previously established property tax tracker.

The Department noted that, absent supporting documentation and a review of the 2024 actual and 2025 year-to-date property tax expenses, it could not recommend approval.

The Department interpreted Xcel's property tax proposal to mean that, if approved, actual 2026 property tax costs would be trued up through the SEP Rider rather than through the existing property tax tracker. However, the Department noted that Xcel's filing contained conflicting language, as it also sought approval to track property tax and damage prevention costs above or below the 2026 baseline after the end of the 2026 calendar year, for review in a future rate case.

The Department requested that Xcel clarify which specific expense it intends to propose for review in future rate cases in its Reply Comments.

d. Xcel's Proposed Labor Cost Recovery – \$6.1 million

The Department recommended that the Commission deny Xcel's proposed 2026 labor cost

⁹ In the Matter of Northern States Power Company d/b/a Xcel Energy for Approval of True-Up Mechanisms, Docket No. E-002/M-19-688. ORDER APPROVING IMPLEMENTATION OF SALES TRUE-UP ADJUSTMENTS, June 28, 2021.

recovery under the SEP Rider.

The Department indicated that its evaluation of labor costs is primarily guided by the following considerations:

- The Commission has approved a 15 percent cap on short-term annual incentive (STI) compensation in several rate cases;
- The Commission consistently rejects recovery of long-term incentive (LTI) compensation costs; and
- The Commission limits recovery of executive compensation.

The Department noted that, absent supporting documentation and a review of the 2024 actual and 2025 year-to-date labor expenses – including STI, LTI, and executive compensation – it could not recommend approval.

Because Xcel did not provide support for the requested labor costs, the Department requested that the Company include the following information in its Reply Comments:

- A breakout of the 2026 proposed test year labor costs of \$30.1 million, including STI compensation and percentage of base salary, LTI, executive compensation and wages.
- Identifying amounts in the 2026 test year that were not approved in the 2024 test year, including amounts exceeding the STI cap, as well as LTI and executive compensation.

e. Xcel's Proposed Damage Prevention Recovery – \$3.8 million

The Department recommended that the Commission deny Xcel's proposed 2026 damage prevention cost recovery through the SEP Rider.

While the Department acknowledged the importance of damage prevention costs for legal compliance, safety, and third-party expenses outside Xcel's control; it argued that this general assertion does not support the proposed incremental costs.

The Department noted that Xcel did not provide 2024 actual or 2025 year-to-date damage prevention expenses, nor supportive documentation for the 2026 forecast.

Additionally, the Department interpreted Xcel's proposal to mean that 2026 actual damage prevention costs would be trued-up through the proposed SEP Rider, if approved. Accordingly, the Department requested that Xcel clarify in its Reply Comments which expenses are intended for review in future rate cases.

f. Xcel's Proposed Manufactured Gas Plant (MGP) Recovery - \$0.4 million

The Department recommended that the Commission deny Xcel's proposed 2026 MGP cost recovery through the SEP Rider.

The Department noted that MGP costs consist of expenses incurred to address environmental claims associated with historical MGP sites.

Additionally, the Department observed that Xcel did not provide 2024 actual or 2025 year-todate MGP expenses, nor did it provide support for the 2026 forecast.

3. **Additional Commentary**

The Department recommended that the Commission deny Xcel's request to keep 2026 base rates unchanged and to withdraw its rate case in Docket G-002/GR-25-356.

The Department indicated that a general rate case incentivizes the utility to manage costs between rate cases, whereas implementing true-ups during that period can diminish the incentive to control costs and distort the proper allocation of costs among customer classes.

Additionally, the Department noted a difference between Xcel's rate design in the current rate case and the SEP Rider. In a rate case, costs are assigned based on fixed, demand, and energy charges, whereas in the SEP Rider, all costs are assigned based on sales. As a result, the residential impact is \$2.69¹⁰ per month under the SEP Rider compared to \$5.84¹¹ per month under the 2025 rate case for interim rates.

The Department requested that Xcel provide additional information in its Reply Comments, including:

 All calculations used to determine the monthly and yearly average residential bill impact, as shown in Table 2 below.

Table 2 – Xcel Energy's Proposed Gas SEP Rate Factor – Residential Bill Impact¹²

Revenue Requirement Test Period	2026
Test Year Project Revenue Requirement	\$46,329,264
Therms for Rate	1,227,923,665
Gas Rate / therm	\$0.037730
Average Residential bill impact / Month	\$2.69
Average Residential bill impact / Year	\$32.29

¹⁰ Xcel's Petition, at 7

¹¹ *Id.*, at 2

¹² *Id.*, at 7.



- Table showing the SEP Rider impact on the following customer classes:
 - Small Commercial Firm
 - Large Commercial Firm
 - Small and Large Commercial Demand Billed
 - Small Interruptible
 - Medium and Large Interruptible
 - Transportation
 - Generation
- For each customer class, similar to Table 2 of Xcel's Petition, provide:
 - Test-year projected revenue requirement
 - Therms for rate
 - Gas rate per therm
 - Average monthly bill impact
 - Average annual bill impact

C. Office of Attorney General – Comments

The OAG argued that none of Xcel's proposed SEP Rider costs are authorized by the legislature for recovery and that they appear to be standard rate case expenses. 13 It further contended that, although Xcel's Stay-Out Petition may result in a lower short-term bill impact than the 2025 rate case, the petition should be rejected because stakeholders have had no meaningful opportunity to review the proposed \$46.3 million in costs for prudence, conduct discovery, provide substantive comments or testimony, or cross-examine Xcel's witnesses.

The OAG noted that the SEP Rider was established in 2004 to recover costs incurred from specific legislative mandates, such as developing sustainable building guidelines for state buildings, ¹⁴ replacing cast iron pipes and breakers containing sulfur hexafluoride, ¹⁵ or funding the Department of Commerce's role in representing Minnesota's interests in regional, national, and international policymaking and infrastructure development. ¹⁶ Additionally, the OAG observed that Xcel's gas SEP Rider currently has no costs being collected. 17

The OAG contended that Xcel misinterpreted the rider's "state policy" designation to cover

¹³ OAG Comments, pg. 4-5 (see Minn. Stat. § 216B.16).

¹⁴ Minn. Stat. § 16B.325.

¹⁵ See 2007 Minn. Laws ch. 57, art. 2, sec. 20 (previously codified as Minn. Stat. § 216B.1637). In 2008, the Legislature made a single change to correct a typo stating "sodium" instead of "sulfur." See 2008 Minn. Laws ch. 277, art 1, sec. 29

¹⁶ 2011 Minn. Laws. ch. 97, sec. 26 (codified as Minn. Stat. § 216B.62, subd. 3b); see also Minn. Stat. § 216A.07, subd. 3a

¹⁷ In the Matter of Xcel Energy's (Xcel) Petition and Compliance Filing for the State Energy Policy Rider, Docket No. G-002/M-22-111. Order at Ordering Paragraphs 2, July 12, 2022.

virtually anything that aligns with a general "state policy" of providing natural gas to ratepayers. Additionally, the OAG noted that Xcel provided only brief descriptions for each cost category it seeks to recover, all of which resemble standard rate case costs. As a result, it is impossible to know whether these costs are just, reasonable, or prudently incurred.

D. Citizen's Utility Board – Comments

1. Introduction

The Citizen's Utility Board (CUB) did not view Xcel's Stay-Out petition as an appropriate use of the SEP Rider, nor felt that Xcel provided sufficient time or information for CUB or other advocates to evaluate the prudency of the proposed costs. For these reasons, CUB recommended that the Commission find the SEP Petition is not in the public interest and deny it.

While noting that the SEP petition may appear favorable in terms of ratepayer costs, CUB argued that this comparison is overly simplistic for several reasons:

- 1. Xcel's test-year revenue requirement is likely to exceed the approved revenue requirement at the conclusion of a contested rate case.
- 2. In response to Xcel's rate case petition, CUB and other parties recommended that exigent circumstances warranted capping the interim rate increase at a level below Xcel's request.
- 3. Xcel's true-up proposal in the SEP Petition would allow the Company to surcharge ratepayers if actual capital-related revenue requirements exceed the baseline, whereas under interim rates, Xcel cannot surcharge customers for under collections.
- 4. It is unclear from Xcel's Petition when the proposed SEP Rider costs would be reviewed for prudence

2. **Applicable Legal Standard**

CUB observed that Xcel did not explain the legal standard under which the SEP Rider was established or how it was intended to be used.

CUB contrasted the SEP Rider with other riders – such as the Gas Utility Infrastructure Cost (GUIC) Rider; 18 the Transmission Cost Recovery (TCR) Rider; 19 and the Renewable Energy Standards (RES) Rider²⁰ – which were each created by the legislature with defined parameters for use, including prudency considerations for cost recovery.²¹ By comparison, the

¹⁸ Minn. Stat. § 216B.1635.

¹⁹ Minn. Stat. § 216B.16, subd. 7b.

²⁰ Minn. Stat. § 216B.1691.

²¹ See Minn. Stat. §§ 216B.1635, subd. 5; 216B.16, subd. 7b(d); 216B.1645, subd. 2a.

Commission's April 6, 2004 Order²² authorized the SEP Rider and established an annual adjustment filing process in response to legislation that more generally authorized automatic recovery of three categories of costs: (1) Reliability Administrator-related costs; 23 (2) costs associated with compliance with sustainable buildings guidelines;²⁴ and (3) costs related to the Prairie Island Settlement concerning Xcel's electric services. 25

CUB noted that although the rider's use evolved over time, it pointed out that in a 2017 Order²⁶ the Commission permitted Xcel to recover approximately \$1.83 million in remaining SEP Rider costs with the understanding that no new costs would be added or recovered through the rider. The SEP Rider was ultimately discontinued in 2022 when Xcel implemented interim rates in its 2021 rate case.²⁷

3. Proposal to Expand Use of the SEP Rider, and Prudence Review

CUB argued that Xcel has historically recovered only a small portion of its overall revenue requirement through the SEP Rider, resulting in minimal residential bill impacts. From 2007– 2010, approved recovery ranged from about \$40,000 to \$667,000, with annual residential bill impacts between \$0.04 and \$0.67. The highest recent recovery was \$1.83 million in 2017, increasing the average annual bill by \$1.64. In contrast, the current proposal of \$46.3 million would represent more than 25 times the amount collected through the SEP Rider in 2017, marking a substantial expansion beyond what the legislature originally intended.²⁸

Additionally, CUB noted that in Xcel's most recent GUIC Petition, ²⁹ the Company provided significantly greater detail – such as project descriptions, scopes of work, estimated costs and in-service dates – for projects totaling approximately \$19.3 million, or nearly half of the 2026 SEP Petition request. In that filing, Xcel proposed a March 1, 2027 recovery date – allowing 16 months for Commission and agency audit and review. By contrast, the SEP Petition does not explain whether or when the proposed costs would undergo a prudence review, and its

²² In the Matter of a Petition by Northern States Power Company d/b/a Xcel Energy for Approval of an Electric and Gas State Energy Policy Rate Rider, Docket No. E,G-002/M-03-1544. ORDER APPROVING STATE POLICY RATE RIDER, AS MODIFIED, April 6, 2024.

²³ See Minn. Stat. § 216C.052 (repealed).

²⁵ *Id.* See also Minn. Stat. § 216B.1645, subd 4.

²⁶ In the Matter of the Petition of Northern States Power Company for Approval of a Modification to its Natural Gas State Energy Policy (SEP) Tariff, 2017 SEP Rate Factor, and 2016 SEP Compliance Filing, Docket No. G-002/M-17-174. ORDER CONTINUING RECOVERY OF COSTS THROUGH THE STATE ENERGY POLICY RIDER AND OTHER ACTION, Ordering Paragraph 1, Aug. 24, 2017.

²⁷ In the Matter of Xcel Energy's (Xcel) Petition and Compliance Filing for the State Energy Policy Rider, Docket No. G-002/M-22-111. Department Comments, at 6, July 12, 2022.

²⁸ CUB Comments, at 8

²⁹ Docket No. G-002/M-25-402

requested January 1, 2026 implementation date would give the Commission only two months to issue a final decision.

CUB argued that, given the limited detail in the SEP Petition and short review period, neither CUB nor other stakeholders could meaningfully evaluate the Petition's advantages and disadvantages relative to pursuing a rate case – and certainly not to a degree that would justify allowing Xcel to implement a \$46.3 million rate increase just seven weeks from now.

Ε. **Xcel Energy – Reply Comments**

On November 17, 2025, Xcel filed its reply comments reiterating its request for approval of the SEP Rider with the proposed true-up mechanisms. The Company stated that the Petition provides a limited, transparent, and administratively efficient approach to resolving the 2025 Gas Rate Case, avoiding higher customer costs and supporting continued safe and reliable service.

1. Legal Issue - The Commission Has Authority to Approve The Proposed **SEP Rider Petition**

The Company disagreed with the Commenters' assertion that the rider is limited to costs derived solely from specific legislative directives. Xcel argued that the Commission possesses full authority to approve the proposed use of the SEP Rider for cost recovery. The Company emphasized that the SEP Rider is a Commission-established mechanism historically used for various defined, finite cost categories, and that the Commission retains broad discretion to establish mechanisms that ensure the recovery of reasonable and prudent costs, thereby setting just and reasonable rates (Minn. Stat. § 216B.03). The costs proposed for recovery, including capital additions, labor O&M, damage prevention (per Gopher State One Call laws), and MGP environmental remediation are straightforward, short-term (not extending beyond 2026 as proposed), and clearly tied to what the Company's legally required to do to keep service safe, reliable, and affordable. The Company also addressed it concerns about setting a negative precedent, arguing that this Stay Out Petition presents a unique public interest opportunity to avoid a full rate case and higher interim rates for customers, and that the Commission retains the power to reject any unreasonable future rider proposals.

2. **Cost Components**

In response to Commenters' concerns about facilitating the review of costs, ensuring reasonable rates, encouraging utilities to control costs, and the lack of detailed cost information in the Company's initial filing, Xcel explained that including baseline costs in the SEP Rider and establishing true-ups does not guarantee cost recovery. Instead, it gives the Company an opportunity to later demonstrate that the expenses were actually incurred and prudently benefited customers.

The Company further stated that under Minn. Stat. § 216B.16, subd. 4, Xcel bears the burden in all rate proceedings of proving that true-up amounts are just and reasonable. The Company emphasized that the costs included in the Petition are either necessary capital investments or

cost increases since the 2024 test year that are largely outside its control, and therefore its obligation and incentive to manage costs are not diminished.

In addition, Xcel noted that each cost item proposed for the January 1, 2026 SEP Rider baseline is addressed extensively in the Company's rate case as provided in Table 3.

		MN Gas		MN Gas		MN Gas
Line No.	True-up Components	2024 Test Year		2026 Test Year Filed		Requested
		Approved in Docket	s c31	in Docket No.	5 632	SEP
110.		No.	Ref ³¹	G002/GR-25-356	Ref ³²	Recovery
		G002/GR-23-413				
1	Capital True-up	178,517,518	[1]	204,002,423	[3]	25,484,905
2	Property Tax True-up	18,632,824	[2]	27,702,804	[4]	9,069,980
3	Labor Cost Recovery	23,983,416	[2]	30,092,345	[5]	6,108,929
4	Damage Prevention	9,624,071	[2]	13,413,684	[6]	3,789,613
5	Manufactured Gas	620,000	[2]	1,061,208	[6]	441,208
	Plant Costs					
	Total	231,377,829		276,272,464		44,894,635

Table 3: Location of Detailed Cost Information (\$)30

While these references support any review commenters wish to undertake, Xcel stated that neither commenters nor the Commission are being asked to fully evaluate the cost estimates at this stage. As with interim rates, the SEP Rider baseline would be established based on Xcel's supported proposal and later reconciled through a true-up. At that time, the Company must provide detailed information comparing baseline amounts to actual results and demonstrate the reasonableness of the actual costs, including any changes from the baseline. The true-up filing will be subject to review by participating parties and the Commission, and Xcel will bear the burden of proving prudence.

3. **True-Up Mechanism**

Xcel addressed the additional information that the Department requested regarding the costs included in the proposed SEP Rider and true-up mechanism:

³⁰ Xcel Reply Comments, at 5, Table 1

³¹ Ref [1] See Attachment A to Reply Comments; [2] Settlement Agreement Paragraphs 7, 8, 13, 21, Docket No. G002/GR-23-413 (2023 Gas Rate Case);.

³² Ref [3] See Attachments B and C to Reply Comments.; [4] Direct Testimony of William Kowalowksi, Table 1 at p.3, Docket No. G002/GR-25-356, and Volume 1, Interim Schedule B, Part 2 at p.6, Docket No. G002/GR-25-356; [5] Direct Testimony of Alicia Berger, Table 9 at p.65, and Randy Capra, Table 6 at 31, Docket No. G002/GR-25-356; [6] Direct Testimony of Alicia Berger, Table 9 at p.65, Docket No. G002/GR-25-356

a. 2024 Actuals and the 2025 Year-to-Date Expenses

In response to the Department's requested information of the 2024 actuals and 2025 year-todate expenses (as of October 31, 2025) for every component subject to true-up, the Company presented the data on table 4 and table 5, respectively, for the NSPM Total Company and the Minnesota Gas Jurisdiction.

Table 4: 2024 Actuals and the 2025 through June 30, 2025 Total Company (\$)33

Line		Total Company	Total	Total	Total	Total	Total
No.		Total Company	Company	Company	Company	Company	Company
	True-up Components	2024 Test Year as Approved in Docket No. G002/GR-23- 413	2024 Actual	2025 Actual YTD June 30, 2025	2025 Forecast	2026 Test Year as Filed in Docket No. G002/GR- 25-356	Requested SEP Recovery
1	Capital True-up	202,307,146	198,937,383	N/A	217,300,211	235,896,726	33,589,580
2	Property Tax True-up	20,652,690	23,466,124	N/A	27,028,980	30,116,970	9,464,281
3	Labor Cost Recovery	27,291,202	29,162,099	15,345,002	31,193,322	34,183,761	6,892,559
4	Damage Prevention	11,005,959	10,807,495	6,760,318	11,429,408	15,313,862	4,307,903
5	Manufactured Gas Plant Costs	620,000	-186,263	2,088	302,088	1,061,208	441,208
	Total	261,876,997	262,186,838	22,107,408	287,254,009	316,572,527	54,695,531

Xcel noted that year-to-date data is not available for the capital true-up and property tax trueup amounts because those components are based on annual totals. In addition to the limited year-to-date information, the Company provided total 2025 annual forecasted amounts for all true-up components and confirmed that the jurisdictional allocators used are consistent with those in Docket No. G-002/GR-25-356.

³³ Xcel Reply Comments, at 7, Table 2

Table 5: 2024 Actuals and the 2025 through June 30, 2025 MN Gas (\$)34

		MN Gas	MN Gas	MN Gas	MN Gas	MN Gas	MN Gas
Line	True-up	2024 Test				2026 Test	
		Year as		2025		Year as Filed	Requested
No.	Components	Approved in	2024 Actual	Actual YTD	2025	in Docket	SEP
140.	Components	Docket No.	2024 Actual	June 30,	Forecast	No.	Recovery
		G002/GR-23-		2025		G002/GR-	Recovery
		413				25-356	
1	Capital True-up ³⁵	178,517,518	174,662,765	N/A	189,057,517	204,002,423	25,484,905
2	Property Tax	18,632,824	21,466,528	N/A	24,926,550	27,702,804	9,069,980
	True-up ³⁶						
3	Labor Cost	23,983,416	25,193,505	13,334,822	27,250,338	30,092,345	6,108,929
	Recovery						
4	Damage	9,624,071	9,659,567	6,064,179	10,228,690	13,413,684	3,789,613
	Prevention						
5	Manufactured Gas	620,000	-186,263	2,088	302,088	1,061,208	441,208
	Plant Costs						
	Total	231,377,829	230,796,102	19,401,089	251,765,183	276,272,464	44,894,635

b. Property Tax Expense for 2026

In response to the Department's request for clarification on which property tax expense amounts would be reviewed in future rate cases, the Company explained that for 2026, incremental property tax would be recovered through the SEP Rider and trued up to actuals within the Rider. The Company also corrected the initial 2026 Property Tax baseline due to a clerical error involving the Gas Utility Infrastructure Cost rider, which had overstated the baseline. Xcel reduced the amount from approximately \$10.5 million to \$9.1 million, lowering the overall SEP Rider baseline to \$44.9 million.³⁷ This correction is also reflected on line 2 of Table 3 above.

After 2026, the existing Property Tax tracker used in recent gas rate cases would continue, with

³⁴ Xcel Reply Comments, at 8, Table 3

 $^{^{35}}$ The 2024 actual Capital True-up amounts reflect 2024 actual allocators and cost of capital as reported in the Company's jurisdictional annual report filed in Docket No. E, G999/PR-25-4. All other Capital True-up amounts reflect the last authorized allocators and cost of capital from the 2024 test year as approved in Docket No. G002/GR-23-413.

³⁶ The 2026 test year amount is adjusted to include the proposed rebuttal adjustment as shown in Docket No. G002/GR-25-356, Volume 4, Section III Rate Base, Workpaper P6, Property Tax (page 4). The adjustment reduces the 2026 test year revenue requirement by approximately \$258,000. The 2025 forecast and 2026 test year amounts are adjusted to remove property taxes recovered through the GUIC rider

³⁷ See Table 3

2027 and later tracker balances reviewed in the next rate case, independent of the SEP Rider.

c. Labor cost Recovery for 2026

In response to the Department's request for a detailed breakout of labor cost recovery, including specific amounts for short-term and long-term incentive compensation (STI and LTI), executive compensation, and wages, along with amounts included in the 2026 test year request that were not approved in the 2024 test year; the Company clarified that the \$30.1 million reflects salaries, straight-time labor, overtime, and premium time for internal employees supporting natural gas services, and do not include any short-term, long-term, or executive incentive compensation.³⁸

The Company also confirmed that no new labor cost categories are included beyond those approved in the 2024 test year. The 2024 approved test year amount for Gas Operations Labor O&M was \$24.0 million (reduced from the proposed \$24.8 million), while actual 2024 costs were approximately \$1.2 million higher than the approved amount.

d. Damage Prevention Recovery for 2026

In response to the Department's request for a clarification of which damage prevention expense amounts are proposed for review in future rate cases; the Company said it requested approval to recover incremental Damage Prevention costs for 2026 estimated at \$3.8 million through the SEP Rider, with a true-up to actual 2026 results. After 2026, any variances above or below the baseline would be tracked independently of the SEP Rider, with the tracker balance and true-up reviewed in the next gas rate case.

e. Customer Impacts

In Reply Comments, Xcel provided Attachment D for the supporting calculations used to determine the average residential bill impact on both a monthly and annual basis per the Department's request. According to the calculations reflect on Attachment D:³⁹

- Residential customer bill impact/month \$2.61
- Residential customer bill impact/year \$31.29

The Company also confirmed that the SEP Rider applies to all classes, with a rate decrease of \$0.036561 per therm to reflect the correction in the Property tax calculation. The Company noted the Attachment E included an updated tariff sheet reflecting this change.

LIUNA – Reply Comments F.

On November 18, 2025, LIUNA filed late reply comments. 40 In its comments, LIUNA recognized

³⁸ Xcel Reply Comment, at 9

³⁹ Xcel Reply Comments Attachment D - Page 1 of 1

⁴⁰ Reply Comments deadline was November 17, 2025

the concerns of the Department, the OAG, and CUB regarding Xcel's proposal. However, LIUNA stated that Xcel has proposed a creative alternative to a traditional rate increase and expressed general support for the SEP proposal. Additionally, LIUNA emphasized that the law provides the Commission broad authority to approve rate recovery mechanisms that advance the public interest and result in just and reasonable rates, including the use of riders.

LIUNA identified three reasons why Xcel's SEP proposal merits consideration:

- 1. Basing SEP recovery on sales is just and reasonable and would offer substantial relief to residential ratepayers compared with the likely outcome of a contested rate case. LIUNA noted that even if the Commission approved 78% of Xcel's request consistent with the recent gas rate case, residential customers would see an average monthly increase of \$5.55, nearly double the \$2.69 increase under the SEP proposal. 41
- 2. A rider with a true-up mechanism can be advantageous when a utility faces temporary cost growth, such as a surge in safety-motivated pipe replacements or public works requirements because it may prevent an unnecessary increase in base rates.
- 3. The SEP Rider offers a creative and reasonable way to address immediate revenue deficiencies without relying on a legally dubious finding of exigent circumstances by lowering interim rates.

III. STAFF ANALYSIS

Staff notes several concerns regarding this SEP Rider Petition:

- Policy uncertainty: Historically, SEP Riders have been used for cost recovery tied to specific legislative directives. Xcel's current stay-out SEP petition does not align with that past practice. Staff notes that the Commission may wish to consider whether approving this petition could set a problematic precedent, potentially opening the door to expanded future rider requests by utilities
- Lack of detailed cost breakout and unreliable financial information: Xcel's initial filing lacked a clear financial breakdown, and the short review period limited stakeholder scrutiny. After the Department requested for detailed baseline and actual cost data, Xcel discovered an error in its Property Tax Expense calculation, reducing its request by approximately \$1.5 million. This raises concerns about the reliability of the financial information in this stay-out petition given the short review timeline.
- Cost prudence and ratepayer protection concerns: Xcel's proposed net revenue increase in this stay-out petition is approximately \$19 million less than its test-year rate case request and \$7 million less than its interim rate request. The Company's SEP proposal

⁴¹ LIUNA Comments, at 1



was presented an alternative path for cost recovery. While not inherently concerning, the difference warrants careful review to ensure the outcome remains just and reasonable for ratepayers. Xcel proposed implementing the SEP Rider effective January 1, 2026, while giving stakeholders less than two weeks to scrutinize the complex proposal, conduct discovery, or cross-examine witnesses. Although the request for recovery is higher in both the interim and test year increases, a thorough review of cost recovery during a contested rate case proceeding will offer greater scrutiny of costs and better protect ratepayer interests.

 Rate design differences: Staff concurs with the Department's analysis that the SEP Rider rate design differs from the Company's rate case approach. In rate cases, costs are allocated using fixed charges, demand, and energy, whereas in the SEP Rider, all costs are assigned entirely based on sales.

Staff recommends that the Commission consider the pending rate case as the appropriate docket for full record development regarding these recovery items.

IV. **DECISION OPTIONS**

SEP Rider Recovery

1. Approve Xcel's proposed SEP Rider Recovery to establish a baseline of \$44,894,635 effective January 1, 2026, subject to true-up to actual 2026 expenses. [Xcel Energy, LIUNA]

OR

2. Deny Xcel's proposed SEP Rider Recovery to establish a baseline of \$44,894,635 effective January 1, 2026, subject to true-up to actual 2026 expenses. [Department, OAG, CUB]

Capital True-up

3. Approve Xcel's proposed Capital True-up for 2026 in the amount of \$25,484,905 through the existing SEP Rider. [Xcel Energy, LIUNA]

OR

4. Deny Xcel's proposed Capital True-up for 2026 in the amount of \$25,484,905 through the existing SEP Rider. [Department. OAG, CUB]

Property Tax True-up

5. Approve Xcel's proposed Property Tax True-up for 2026 in the amount of \$9,069,980 through the existing SEP Rider. [Xcel Energy, LIUNA]

OR

6. Deny Xcel's proposed Property Tax True-up for 2026 in the amount of \$9,069,980 through the existing SEP Rider. [Department, OAG, CUB]

<u>Labor Cost Recovery</u>

7. Approve Xcel's proposed Labor Cost Recovery for 2026 in the amount of \$6,108,929 through the existing SEP Rider. [Xcel Energy, LIUNA]

OR

8. Deny Xcel's proposed Labor Cost Recovery for 2026 in the amount of \$6,108,929 through the existing SEP Rider. [Department, OAG, CUB]

Damage Prevention Recovery

9. Approve Xcel's proposed Damage Prevention Recovery for 2026 in the amount of \$3,789,613 through the existing SEP Rider. [Xcel Energy, LIUNA]

OR

10. Deny Xcel's proposed Damage Prevention Recovery for 2026 in the amount of \$3,789,613 through the existing SEP Rider. [Department, OAG, CUB]

Manufactured Gas Plant Costs

11. Approve Xcel's proposed Manufactured Gas Plant (MGP) Costs for 2026 in the amount of \$441,208 through the existing SEP rider. [Xcel Energy, LIUNA]

OR

12. Deny Xcel's proposed Manufactured Gas Plant (MGP) Costs for 2026 in the amount of \$441,208 through the existing SEP rider. [Department, OAG, CUB]

Withdrawal of General Rate Application

13. Approve Xcel's request to leave its base rates unchanged in 2026 and to withdraw its application for a general rate increase in Docket No. G-002/GR-25-356. [Xcel Energy]

OR

14. Deny Xcel's request to leave its base rates unchanged in 2026 and to withdraw its application for a general rate increase in Docket No. G-002/GR-25-356. [Department]

Compliance Filings

15. Require Xcel to file revised tariff language and any other documentation as needed to demonstrate compliance with the Commission's order in this docket. [Staff]