



## I. Background

Northern States Power Company, doing business as Xcel Energy (Xcel or the Company), is required to submit its Annual Service Agreement (ASA) to the Minnesota Public Utilities Commission (Commission).

The Service Agreement, originally approved on April 26, 2001, in Docket No. G, E-002/AI-00-1251, established the terms and cost allocation methods used by Xcel Energy Services Inc. (XES) to provide administrative and management services to Xcel Energy's operating companies.

On August 20, 2004, the Commission approved changes to the three-factor formula used to distribute costs related to corporate governance activities in Docket No. E,G-002/AI-04-181.

On October 22, 2004 the Commission approved new allocation ratios to allocate information technology costs in Docket No. E,G-002/AI-04-666.

On January 29, 2009, the Commission approved changes that accommodate the repeal of the Federal Public Utility Holding Company Act of 1935 in Docket No. E,G-002/AI-08-760.

On November 20, 2014, the Commission approved allocation changes that Xcel had implemented in prior years without Commission notice in Docket No. E,G-002/AI-14-234, finding that the changes maintained cost-causative allocation methods and requiring the Company to submit annual Service Agreement filings for ongoing review of cost allocations and proposed changes.

On November 19, 2015, the Commission accepted this first required annual Service Agreement filing and, through two separate orders under the same docket, approved various changes in allocation methods in Docket No. E,G-002/AI-15-536.

From the year 2016 through 2024 (except for 2021), the Commission accepted Xcel's annual filings with no revisions,<sup>1</sup> in compliance with the requirements of the November 20, 2014 Order in Docket No. E,G002/AI-14-234.

On March 17, 2021, the Commission approved Xcel's revised Administrative Service Agreement with XES (Fifth Amendment) in Docket No. E,G-002/AI-20-514, which included three major changes: Risk Area Realignment; Addition of Total Assets Ratio including Xcel Energy Inc.'s Per Book Assets Definition; and Addition of New Allocation Method for Advanced Metering Infrastructure (AMI).

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<sup>1</sup> For years 2016-2019: Docket Nos. E,G-002/AI-16-489; E,G-002/AI-17-456; E,G-002/AI-18-362; E,G-002/AI-19-371.

For years 2021-2024: Docket Nos. E,G-002/AI-21-356, E,G-002/AI-22-259, E,G-002/AI-23-216, and E,G-002/AI-24-203.

On May 30, 2025, Xcel filed its 2025 Annual ASA with XES in compliance with the November 20, 2014 Order in Docket No. E,G-002/AI-14-234.<sup>2</sup> This filing requested Commission approval of the Sixth Amendment to its Service Agreement in which the Company proposed adding a Wildfire Mitigation service function and updating related cost allocation methodology in a manner consistent with Commission guidance and in public interest.

On September 29, 2025, the Minnesota Department of Commerce, Division of Energy Resources (the Department), filed comments and found that Xcel's 2025 ASA Petition met statutory and rule requirements; however, it disagreed with Xcel's proposed method for allocating wildfire mitigation costs.

On October 9, 2025, the Office of the Attorney General – Residential Utilities Division (OAG) filed its comments supporting the Department's recommendation and referred to its direct testimony filed in Xcel's pending rate case, Docket No. E-002/GR-24-320.

On October 10, 2025, Xcel filed its reply comments, disagreeing with the Department's recommendation and requesting that the Commission approve the Sixth Amendment to the Service Agreement between the Company and XES, as discussed in its initial filing on May 30, 2025.

## II. Minnesota Rules

[Minn. Stat. § 216B.48](#) and [Minn. R. 7825.2200, Subpart B](#) govern aspects of the relationships between regulated utilities and their affiliated interests and guidelines for utility-affiliated interest filings.

## III. Discussion

### A. Xcel Energy – Initial filing

In this Petition, Xcel explained the background of its cost allocation methodologies, which follow the Commission's guiding principles (Docket No. E,G-999/CI-90-1008) and allocate costs consistently and equitably, ensuring recovery from the responsible entity and avoiding cross-subsidization. Xcel further explained that costs are assigned directly, when possible, grouped into categories for common costs, and allocated based on direct or indirect causation, or general allocators as needed.<sup>3</sup> The Cost Allocation and Assignment Manual (CAAM) details these procedures broadly, while the Service Agreement with XES applies these principles specifically to products and services provided to the Company, subject to Commission review and approval.

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<sup>2</sup> [In the Matter of the Request by Northern States Power Company for Approval of a Second Amendment to the Service Agreement Between the Company and Xcel Energy Services Inc.](#), Order point 2.

<sup>3</sup> Xcel Initial, pg. 4

Pursuant to Minn. Stat. § 216B.48 and Minn. R. 7825.2200, subp. B, Xcel submitted its Annual Report to the Minnesota Public Utilities Commission (Commission) in Docket No. E-002/M-25-245 regarding proposed changes to its Administrative Service Agreement with Xcel Energy Services Inc. (XES). Through a Sixth Amendment, Xcel proposed adding a new Wildfire Mitigation service function and making various text updates for clarity and consistency.<sup>4</sup> The Company indicated that its review of the current Service Agreement did not identify any changes needed to the cost allocation methodologies for 2025.

The Company explained that it is proposing an amendment to apply an existing allocation methodology to the new Wildfire Mitigation service function because, due to the increased risk of wildfires over the last several years, wildfire mitigation has become a critical focus across Xcel Energy's operating states, including Minnesota. To support planning and risk reduction, the Company proposed adding a Wildfire Mitigation service function to the Service Agreement and allocating its indirect costs using the Total Plant Ratio (TPR), a method already applied to other service functions. The Company asserted that this request is reasonable and in the public interest because it allocates wildfire mitigation costs, an emergent service function for the Company, in the most cost-causative manner.

#### **B. Department of Commerce – Comments**

On September 29, 2025, the Department filed comments regarding Xcel's Petition. Overall, the Department's analysis found that the filing met requirements outlined in Minnesota Rule 7825.2200, Subpart B, (1) – (5) and that Xcel's proposed miscellaneous changes to the Service Agreement are reasonable. However, the Department disagreed with Xcel's proposal to allocate wildfire mitigation costs using the Total Plant Ratio (TPR).

Based on its review of Xcel's proposed Wildfire Mitigation Service Function and allocator, the Department supported incorporating Wildfire Mitigation for transparency and oversight but is concerned that use of the TPR method does not reflect the actual drivers of these costs. The Department stated that TPR assumes wildfire risk is uniform per dollar of plant across all jurisdictions, even though wildfire mitigation costs vary by local factors such as drought, terrain, vegetation, and often concentrating in high-risk areas.

The Department also referenced the direct testimony of Mark Johnson including Information Request (IR)# 2107 filed August 22, 2025<sup>5</sup> in Xcel's pending electric rate case Docket No. E-002/GR-24-320 which had the same conclusions. In that rate case docket, the Department requested that Xcel justify its use of the TPR to allocate Wildfire Mitigation indirect costs or provide an alternative calculation based on NSPM's share of direct wildfire costs. The Company declined to provide impacts of alternative allocators in the rate case's rebuttal testimony. As a

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<sup>4</sup> Xcel Initial Filing – see Attachment B, C, D, E.

<sup>5</sup> Docket No. E-002/GR-24-320, Department - Johnson Direct, MAJ-D-10, IR#2107.



result, the Department recommended removing \$3.3 million (2025) and \$4.3 million (2026)<sup>6</sup> in wildfire allocations to MSPM-Minnesota jurisdiction due to cross-subsidization concerns and concluded that TPR is not the most cost-causative method. The Department further recommended that Xcel allocate Wildfire Mitigation indirect costs based on each jurisdiction's direct Wildfire Mitigation expenditures, as this method reflects cost causation, aligns with the its recommendation in the current rate case, and avoids charging customers for costs from which they do not benefit.

Finally, The Department recommended that the Commission approve Xcel's revised Administrative Service Agreement with XES, with a modification requiring Wildfire Mitigation indirect costs to be allocated based on direct costs rather than the Total Plant Ratio for electric transmission and distribution. Because the proposed allocations are consistent with those used in Xcel's current rate case (Docket No. E-002/GR-24-320), the Department further recommended that the Commission require Xcel to quantify the financial impacts of any approved allocation changes for the 2025 and 2026 test years.

### C. Office of the Attorney General – Comments

In its October 9, 2025 comments, the OAG supported allocating Wildfire Mitigation indirect costs in proportion to each jurisdiction's direct expenditures.

In the OAG's Direct Testimony in Xcel's pending rate case, Docket No. E-002/GR-24-320,<sup>7</sup> the following concerns were addressed about Company's proposal to allocate wildfire mitigation costs using the Total Plant Ratio in the Sixth Amendment Service Agreement:

- Using the Total Plant Ratio to allocate wildfire risk management costs would incorrectly assume wildfire risk is uniform across all operating companies and jurisdictions, treating all plant investment as equally responsible for these costs.
- The Total Plant Ratio reflects only geographic footprint, not actual wildfire risk, which varies by factors such as wildfire frequency, size, restoration costs, weather, and ignition sources. In Minnesota, most wildfires are human caused rather than natural.

Because of the above concerns and the Company did not calculate indirect costs using directly assigned wildfire costs, similar to the Department, the OAG made the following recommendations:<sup>8</sup>

- Allocate XES indirect wildfire risk management costs to NSPM based on directly assigned wildfire costs, not the Total Plant Ratio.

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<sup>6</sup> Docket No. E-002/GR-24-320, Department - Johnson Direct, MAJ-D-7 through MAJ-D-9, IR#185-187.

<sup>7</sup> Docket No. E-002/GR-24-320, OAG's Lee Direct (Aug. 22, 2025), pp. 25–28.

<sup>8</sup> Docket No. E-002/GR-24-320, OAG's Lee Direct (Aug. 22, 2025), pp. 29.



- Remove the Minnesota jurisdiction’s currently calculated costs from the 2025 Test Year (\$3.3 million) and 2026 Plan Year (\$4.3 million). The 2025 Test Year and 2026 Plan Year adjustments cannot be determined because the Company did not provide the requested calculations.

#### D. Xcel Energy – Reply Comments

In its reply comments on October 10, 2025, the Company disagreed with the Department’s recommendations. The Company stated following:<sup>9</sup>

“.. a core principal of allocating costs from XES to the Company through the ASA is that costs that cannot be direct assigned should be allocated based on a cost-causative methodology. Direct costs incurred are not a cost-causative method of allocating indirect costs (which for wildfire costs include things like situation awareness information technology (IT costs and meteorology/fire science modeling IT costs), and the Company is not clear on how indirect costs can be allocated on a direct cost basis.”

Xcel also disagreed with the Department’s and OAG’s recommendation to allocate indirect costs based on NSPM’s share of direct wildfire costs. The Company argued that this approach is inconsistent with the cost-causative framework<sup>10</sup> and could distort year-to-year allocations, as a single year of high wildfire activity might disproportionately affect the following year. Although discrete wildfire events drive direct costs, the Company stated that they do not drive indirect costs, such as IT systems used for situational awareness.<sup>11</sup> Allocating indirect costs based on one year wildfire events could unfairly burden jurisdiction in later years. Xcel further stated that it follows long-approved allocation methodologies in the Administrative Service Agreement, and the proposed changes by the Department and OAG would depart from this established framework.<sup>12</sup>

In its current pending rate case Docket No. E-002/GR-24-320 Rebuttal Testimony of Nicole L. Doyle, filed on October 10, 2025, the Company discussed its disagreement with the Department and the OAG recommendation to remove \$3.3 million in 2025 and \$4.3 million in 2026 of indirect wildfire mitigation costs allocated to the Minnesota jurisdiction. The Company said by removing the wildfire mitigation costs for the Minnesota jurisdiction, \$3.3 million in 2025 and \$4.3 million in 2026, would effectively eliminate all wildfire mitigation costs allocated to Minnesota. The Company further explained in response to the Department’s IR#2107 that the

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<sup>9</sup> Xcel Reply Comments at 2

<sup>10</sup> The framework of how costs are assigned is outlined in Xcel’s Cost Allocation and Assignment Manual, initially established in Docket No. E002/GR-92-1185 and reaffirmed in Docket No. E,G999/CI-90-1008

<sup>11</sup> Xcel Reply Comments at 2.

<sup>12</sup> *Id.*

indirect XES costs must be allocated using a cost-causative methodology, as direct costs do not provide an appropriate basis allocating indirect costs, such as information technology for situational awareness or fire modeling. As shown in Table 1, the breakout for both direct and allocated indirect wildfire mitigation costs for NSPM- Minnesota.

**Table 1 - NSPM Wildfire Mitigation Charges Test Years 2025 and 2026 (\$ in Millions)<sup>13</sup>**

<b>Direct Charges</b>	<b>2025</b>	<b>2026</b>
Labor	\$0.3	\$1.7
Consulting	\$1.2	\$0.5
Non-Labor	\$0.3	\$0.6
<b>Total NSPM Direct Charges</b>	<b>\$1.8</b>	<b>\$2.8</b>
MN Jurisdictional Allocation Percentage	87%	87%
<b>Total MN Direct Charges</b>	<b>\$1.6</b>	<b>\$2.4</b>
<b>Indirect Charges</b>	<b>2025</b>	<b>2026</b>
Labor	\$0.6	\$0.7
Non-Labor	\$1.4	\$1.4
<b>Total NSPM Indirect Charges</b>	<b>\$2.0</b>	<b>\$2.1</b>
MN Jurisdictional Allocation Percentage	87%	87%
<b>Total MN Indirect Charges</b>	<b>\$1.7</b>	<b>\$1.8</b>
<b>Total Charges</b>	<b>2025</b>	<b>2026</b>
<b>Total NSPM Charges</b>	<b>\$3.8</b>	<b>\$4.9</b>
<b>Total MN Charges</b>	<b>\$3.3</b>	<b>\$4.3</b>

Additionally, Ms. Doyle emphasized that NSPM follows a Commission-approved fully distributed costing methodology, established in prior electric and gas rate cases and reaffirmed in the 1994 Cost Allocation Order. The Company's hierarchical cost allocation framework prioritizes direct assignment where possible and allocates common costs based on cost causation, variability, traceability, benefit, or, if necessary, a general allocator. For Wildfire Mitigation costs, NSPM directly assigns costs to the Minnesota jurisdiction when specific and allocates indirect costs using Total Plant (electric transmission and distribution) as the most cost-causative method available.<sup>14</sup>

Xcel concluded that indirect wildfire mitigation costs should be allocated using the Total Plant Ratio and included in the 2025 and 2026 test years. This approach aligns with Commission-approved cost-causation principles and provides an equitable allocation across jurisdictions. Excluding these costs would under-recover expenses necessary to maintain safe and reliable service and prevent full recovery of wildfire mitigation efforts. The Total Plant Ratio reflects

<sup>13</sup> Docket No. E-002/GR-24-320, Xcel – Doyle Rebuttal (Oct.10, 2025), pp. 15.

<sup>14</sup> *Id.*, pp.18.

the underlying drivers of indirect costs and ensures that cost recovery matches the scope and scale of operations.<sup>15</sup>

#### IV. Staff Analysis

Staff notes that allocating Wildfire Mitigation indirect costs using the Total Plant Ratio (TPR) may reasonably reflect cost causation; however, wildfire mitigation activities are often driven by localized conditions (e.g., vegetation, terrain, and climate), raising concerns about whether the use of TPR could result in cross-subsidization among operating companies or jurisdictions. If the Commission allows indirect wildfire mitigation costs to be allocated using TPR and included in the Company's current rate case, the Commission may wish to consider the associated financial impacts and require Xcel to identify the Minnesota jurisdictional impacts of alternative allocation methodologies for the 2025 and 2026 test years. Providing this analysis would enable the Commission to better evaluate the reasonableness of the proposed allocator and its rate impacts.

#### V. Decision Options

1. Approve Xcel's proposed Sixth Amendment to the Service Agreement between the Company and XES Xcel, including Xcel's proposal to allocate indirect wildfire mitigation costs using the Total Plant Ratio and include them in the Company's current rate case (Docket No. E002/GR-24-320) for the 2025 and 2026 Test Years. [Xcel Energy]
2. Approve Xcel's proposed Sixth Amendment to the Service Agreement between the Company and XES, with the modification requiring Xcel to allocate Wildfire Mitigation indirect costs based on Wildfire Mitigation direct costs instead of using the Total Plant Ratio of electric transmission and distribution plants. [Department, OAG]
3. Require Xcel to provide the financial impact of the Wildfire Mitigation service function in the Company's current rate case (Docket No. E-002/GR-24-320) for the 2025 and 2026 Test Years, reflecting any allocation changes proposed in this docket that are approved by the Commission. [Department, OAG]

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<sup>15</sup> Docket No. E-002/GR-24-320, Xcel – Doyle Rebuttal (Oct.10, 2025), pp. 21.