BEFORE THE MINNESOTA COURT OF ADMINISTRATIVE HEARINGS
600 North Robert Street
St. Paul, MN 55101

FOR THE MINNESOTA PUBLIC UTILITIES COMMISSION
121 7th Place East, Suite 350
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| IN THE MATTER OF THE PETITION OF THE CITY OF SLAYTON FOR THE DETERMINATION OF COMPENSATION FOR CITY ACQUISITION OF XCEL ENERGY ELECTRIC SERVICE TERRITORY | MPUC Docket No. E-002, PT-7157/ SA-25-129<br>CAH Docket No. 25-2500-40870 |

**REBUTTAL TESTIMONY OF CUONG NGO**

**ON BEHALF OF**

**THE MINNESOTA DEPARTMENT OF COMMERCE**
**DIVISION OF ENERGY RESOURCES**

**JANUARY 9, 2026**

REBUTTAL TESTIMONY OF CUONG NGO
IN THE MATTER OF THE PETITION OF THE CITY OF SLAYTON FOR THE DETERMINATION OF COMPENSATION FOR CITY ACQUISITION OF XCEL ENERGY ELECTRIC SERVICE TERRITORY

DOCKET NO. E-002, PT-7157/SA-25-129
CAH DOCKET NO. 25-2500-40870

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## I. INTRODUCTION

**Q. Would you state your name, occupation, and business address?**

A. My name is Cuong Ngo. I am employed as a Public Utilities Financial Analyst by the Minnesota Department of Commerce, Division of Energy Resources (Department). My business address is 85 7th Place East, Suite 280, St. Paul, Minnesota 55101-2198.

**Q. What is your educational and professional background?**

A. I hold a Master of Accounting degree from Minnesota State University, Mankato, and joined the Department in February 2025. Before that, I worked as an accountant for two years and spent four years as a financial analyst in the oil and gas industry. Following this, I was an investment analyst at a stock brokerage for four years, and I also spent three years as a tax specialist before joining the Department.

**Q. What is your experience on regulatory matters?**

A. Since becoming a financial analyst for the Department, I have worked on a range of primarily financial dockets before the Minnesota Public Utilities Commission (Commission), including service-area agreements, depreciation studies, various rate riders, fuel forecast, and general rate case true-up mechanisms and refund dockets.

**Q. Have you previously provided testimony in this proceeding?**

A. No. This is my first time providing testimony in this docket. I submit it as rebuttal testimony responding to the direct testimonies filed by the City of Slayton (City) and

Northern States Power Company d/b/a Xcel Energy (Xcel or the Company) on the issue of just compensation for the City's proposed purchase of Xcel's facilities and service rights in Slayton.[1]

## II. PURPOSE AND SCOPE

**Q. What are your responsibilities in this proceeding?**

A. The Department's role in this proceeding is to provide information and assess the positions of Xcel and the City, jointly referred to as the Parties. Specifically, this information and assessment pertains to the level of compensation that the City should pay the Company for the service territory, customers, and facilities that the City wishes to acquire or that may be abandoned.

**Q. What is the scope of your rebuttal testimony?**

A. My testimony responds to some of the statements made in the direct testimony of the City's witness, David A. Berg. And likewise my testimony responds to some of the statements made in the direct testimony of Xcel's witnesses: Lisa R. Peterson, Bixuan Sun, Allen D. Krug, and John I. Marshall. My rebuttal testimony focuses on how the four components typically used in municipal acquisition and annexation cases should be applied in this docket. These four components are: value of property, loss of revenue to the utility, integration expenses, and other appropriate factors. My testimony addresses all four components but focuses primarily on the "loss of revenue" factor, because it is

[1] City Ex__ (Berg Direct); Xcel Exs__ (Peterson Direct), __ (Sun Direct), __ (Marshall Direct), __ (Krug Direct).

the largest source of disagreement between the parties and the most significant driver of total just compensation.

**Q. How is your rebuttal testimony organized?**

A. My rebuttal testimony is organized as follows:

- Section III summarizes the statutory framework and briefly describes the Parties' just-compensation positions.
- Section IV provides my analysis of each statutory component.
- Section V summarizes my analysis to the Commission.

**Q. Are you recommending a specific dollar amount of just compensation?**

A. No. I do not recommend a specific dollar amount of just compensation, and I do not endorse either Party's numerical result. My role is to describe the statutory framework, summarize key differences in the Parties' approaches, and provide information on how similar issues have been treated in prior Commission decisions so that the Commission can evaluate the Parties' positions. Because costs and load inputs may change before the transfer date, it may be most appropriate for the Commission to adopt a clear framework and direct the Parties to apply that framework with updated data in a compliance filing.

## III. STATUTORY FRAMEWORK

**Q. What does Minn. Stat. § 216B.45 require regarding just compensation?**

A. My understanding of Minn. Stat. § 216B.45 is as follows. Minn. Stat. § 216B.45 governs municipal purchase of a public utility's property when the utility operates in a municipality under a franchise, license, permit, or similar authority. It provides that a utility is deemed to have consented to a municipal purchase of its property for just compensation and assigns to the Commission the responsibility, after hearing, to determine just compensation if the parties cannot agree.

Importantly, Minn. Stat. § 216B.45 specifically directs the Commission, in determining just compensation, to consider four factors:

1. The original cost of the property less depreciation;
2. Loss of revenue to the utility;
3. Expenses resulting from integration of facilities; and
4. Other appropriate factors.

Thus, § 216B.45 expressly codifies a four-factor compensation test identical to the definition of "appropriate value" for service-territory acquisitions under Minn. Stat. § 216B.44.

**Q. Why is Minn. Stat. § 216B.44 also relevant to the Parties' positions?**

A. Minn. Stat. § 216B.44 applies when a municipal utility extends its assigned service area into territory served by another utility. It defines "appropriate value" using the same four factors as Minn. Stat. § 216B.45 and has been applied in numerous contested cases and settlements. Previous Commission orders pertaining to Minn. Stat. § 216B.44 therefore provide extensive guidance on how to interpret and quantify "original cost less depreciation," "loss of revenue," "integration expenses," and "other factors" in the context of municipal acquisitions.

Although this docket arises under Minn. Stat. § 216B.45, not Minn. Stat. § 216B.44, the two statutes address closely related circumstances—municipal acquisition of utility facilities and service rights—and both parties rely on the four-factor framework to guide their just-compensation proposals here. As a practical matter, the Parties have asked the Commission to apply the same four factors when determining just compensation in this § 216B.45 proceeding.

## IV. ANALYSIS OF JUST COMPENSATION

### *A. OVERVIEW OF PARTIES' POSITIONS*

**Q. How do the City and Xcel approach the just-compensation framework in this docket?**

A. Both the City and Xcel structure their just-compensation analyses using the four statutory factors.

1. For **original cost less depreciation, which results in net book value**, the Parties rely on Xcel's plant records to identify distribution facilities located in Slayton and to calculate net book value.

2. For **loss of revenue**, the City proposes a five-year payment based on a net-margin-per-kWh figure derived from 2026 revenue-requirement data, while Xcel uses a discounted cash-flow model over a 20-year horizon with relatively limited avoided costs.

3. For **integration expenses**, Xcel identifies specific incremental costs it expects to incur because of the transfer; the City questions some of those cost estimates but does not provide a fully developed alternative.

4. For **other appropriate factors**, Xcel identifies the substation cost at Slayton West (SLW) as a stranded asset to recover, while the City treats the stranded substation issue as part of the loss-of-revenue calculation.

The Parties differ significantly, especially regarding the loss of revenue factor and the extent to which various costs are "avoidable" or "non-avoidable" if the City leaves Xcel's system.

*B. VALUE OF PROPERTY - ORIGINAL COST LESS DEPRECIATION*

**Q. Do you disagree with how either party treats the "value of property" factor?**

A. No. Both parties treat "value of property" as the net book value of the distribution assets being transferred, calculated as original cost less accumulated depreciation. This is consistent with the statute and with standard utility accounting and ratemaking practices. The City notes that it has not independently audited Xcel's plant records, but it does not present evidence that Xcel's net book value is unreasonable.

**Q. What do you conclude regarding the value-of-property component?**

A. I conclude that it may be appropriate for the Commission to:

1. Use Xcel's most recent net book value for the distribution assets in the City as the value-of-property component of just compensation; and

2. Require Xcel to update and document the net book value at the actual transfer date, including a final asset list, original cost, and accumulated depreciation, so that the parties can confirm the amount is accurate at the time of transfer.

This approach reflects that there is no substantive dispute on this factor while still ensuring that the final number is accurate and current.

*C. LOSS OF REVENUE TO THE UTILITY*

**Q. How do you define "loss of revenue to the utility" under § 216B.45 in this case?**

A. For purposes of this rebuttal, I define "loss of revenue to the utility" as the present value of the net operating margins Xcel would have earned from serving the Slayton area if the City did not acquire the facilities and service rights. Net operating margin equals gross revenues from Slayton customers, minus the costs Xcel will avoid when it no longer serves those customers. This is the same net-revenue-loss concept the Commission has described under past Orders that address Minn. Stat. § 216B.44.[2]

**Q. How do the Parties' time horizons compare to the Commission's practice in municipal acquisition cases under Minn. Stat. § 216B.44?**

A. Xcel uses a 20-year horizon and a lump-sum present value of forecasted net revenue from existing and expected future customers, with substantial emphasis on long-lived fixed costs and an assumption that lost contributions persist for decades. The City uses a

[2] *In re Application of the City of Redwood Falls to Extend its Assigned Serv. Area into the Area Presently Served by Redwood Elec. Coop.*, Docket No. E-135, 298/SA-05-1274, ORDER DETERMINING COMPENSATION at 3–4 (June 27, 2007) (eDocket No. 4453763).

shorter horizon, effectively limiting compensation for loss of revenue to approximately five years.

In service-area cases under Minn. Stat. § 216B.44, the Commission has repeatedly concluded that ten years is the appropriate standard period for compensating loss of revenue from both existing and future customers, and that perpetual or overly long periods are not justified.[3]

Applying a ten-year horizon here aligns this case with long-standing Commission practice, balances the need to compensate real economic loss against the risk of speculative forecasts, and gives Xcel a reasonable period to adjust its system and customer base to reflect the changes caused by the City.

**Q. Should compensation for loss of revenue under § 216B.45 include future customers?**

**A.** Yes. It is my understanding that § 216B.45 does not limit compensation to existing customers. The Commission's prior § 216B.44 decisions make clear that displaced utilities should be compensated for reasonably foreseeable future customers in annexed areas.

In *Rochester–People's*, the Commission rejected a "bare ground" theory under which no compensation would be paid for future customers and concluded that such an

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[3] *See In re the Application of the City of Rochester for an Adjustment of its Service Area Boundaries with People's Cooperative Power Association*, Docket No. E-132,299/SA-93-498, ORDER DETERMINING COMPENSATION at 5 and 11(eDocket No. 162864-A). *See also In re the Application of the Grand Rapids Public Utilities Commission to Extend its Assigned Service Area into the Area Presently Served by Lake Country Power,* Docket No. E-243,106/SA-03-896, ORDER DETERMINING COMPENSATION at 19. (eDocket No. 2373348), Rebuttal Testimony of Dale V. Lusti, at 10–11, and 39 (summarizing prior Commission settlements and orders and observing that compensation periods have generally lasted ten years) (eDocket. No 2219718).

approach would be inequitable and contrary to the service-area statutes.[4] By analogy, in this case, compensation should reflect the net revenue loss from existing Slayton customers and from reasonably foreseeable growth over the ten-year period.

**Q. How should avoided costs be determined for the net-revenue-loss calculation?**

A. The Commission's *Grand Rapids–Lake Country* and *Redwood Falls* orders provide a clear standard. In *Redwood Falls*, the Commission rejected the city's attempt to use cost-of-service allocation studies as a proxy for avoided costs, explaining that allocating costs among customer classes for ratemaking is fundamentally different from determining which costs a utility will actually stop incurring when specific customers are lost.[5] Instead, the Commission held that avoided costs must be based on the costs the cooperative "will actually shed" due to the loss of the customers at issue and required consistency between gross-revenue and avoided-cost calculations (for example, using the actual wholesale power rate that will be avoided).

Applying that guidance here, avoided costs should include:

- Fuel and purchased-power costs that vary directly with Slayton's load;
- Clearly variable O&M expenses that can be shown to decrease when Slayton leaves (for example, certain distribution line maintenance or meter-reading costs); and

[4] *In Application by the City of Rochester for an Adjustment of its Service Area Boundaries with People's Cooperative Power Association*, Docket No. E-299, 132/SA-93-498, Order Determining Compensation and Denying Motion to Dismiss (Nov. 30, 1995) at 4–6, 9–11, (eDocket No. 102105-A).

[5] *In the Matter of the Application of the City of Redwood Falls to Extend its Assigned Service Area into the Area Presently Served by Redwood Electric Cooperative,* Docket No. E-135,298/SA-05-1274, Order Determining Compensation at 12–13, (eDocket No. 4453763).

- Any demonstrable reductions in customer service or billing costs attributable to the loss of Slayton's accounts.
- Fixed costs, such as most production plants, transmission backbone, general plant, and shared administrative overhead, are not immediately avoidable and should not be treated as avoided unless the City can show that these costs will actually decline as a result of Slayton's departure over the ten-year period.

**Q. How do the City's and Xcel's avoided-cost assumptions compare to this standard?**

A. Based on my review, the City treats a broad set of production, generation, distribution, and customer-related costs as avoidable, which tends to reduce the net-revenue-loss component. That approach risks understating Xcel's actual loss, because many of those costs are embedded in shared facilities or overhead that will remain in service. Xcel, by contrast, appears to focus almost exclusively on fuel, and a small portion of customer cost, which tends to increase the net-revenue-loss component and may overstate Xcel's inability to adjust its cost structure over a decade.

Neither extreme is fully consistent with the Commission's avoided-cost guidance under Minn. Stat. § 216B.44. In prior cases, the Commission has found it important that avoided costs correspond to costs the utility will stop incurring if the customers leave and has cautioned against relying solely on embedded cost-of-service allocations. In this docket, the City's broad avoided-cost assumptions and Xcel's narrower assumptions bracket that principle. The Commission may wish to require the Parties to clarify which cost categories they expect to be truly avoidable over the chosen compensation period and to reconcile their loss-of-revenue calculations with the evidence-based avoided-cost framework.

**Q. How should the loss-of-revenue component be paid?**

A. In Minn. Stat. § 216B.44 cases, the Commission has used both lump-sum payments and mill-rate payments, often in combination.[6] In *Redwood Falls*, the Commission determined compensation for present and future customers (other than the wastewater ponds) as a mill rate of 29.7 mills per kWh for ten years, and separately set lump-sum amounts for original cost less depreciation.

For this Minn. Stat. § 216B.45 case, I conclude that it may be appropriate for the Commission to consider expressing the loss-of-revenue component as a per-kWh mill rate applied to actual kWh delivered by Slayton to customers within the acquired area for ten years following the transfer. The mill rate would be derived by dividing the ten-year present value of Xcel's net revenue loss (for existing and future customers) by the ten-year present value of projected kWh sales. This approach aligns with the Commission's § 216B.44 practice, tying compensation to actual load; and reduces the risk of over- or under-compensation if actual growth differs from forecast.[7]

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[6] See *In re Application by the City of Rochester for an Adjustment of its Serv. Area Boundaries with People's Coop. Power Ass'n*, Docket No. E-299, 132/SA-93-498, ORDER DETERMINING COMPENSATION AND DENYING MOTION TO DISMISS at 11 (Nov. 30, 1995), (eDocket No 102105-A), (Rochester Order)(approving an alternative structure consisting of a lump sum for existing customers and an 11.0 mills/kWh rate for future customers over ten years). *See also In re the Application of the City of Redwood Falls to Extend its Assigned Serv. Area into the Area Presently Served by Redwood Elec. Coop.*, Docket No. E-135,298/SA-05-1274, ORDER DETERMINING COMPENSATION at 13–14 (eDocket No 4453763) (setting compensation for most annexed areas at 29.7 mills/kWh "for present and future customers for a period of ten years").

[7] Rochester Order at 8 ("…A mill rate is an effective way to tie compensation for future growth to actual growth, without sacrificing finality and certainty. It protects against egregious differences between compensation and actual losses, should future growth turn out to be dramatically higher or lower than expected. For all these reasons, the Commission will adopt the combination lump sum/mill rate award calculated by the ALJ.").

*D. INTEGRATION EXPENSES*

**Q. How should integration expenses be treated under Minn. Stat. § 216B.45?**

A. Minn. Stat. § 216B.45 explicitly requires the Commission to consider "expenses resulting from integration of facilities." In § 216B.44 cases, the Commission has treated documented incremental costs to integrate or reconfigure systems as a distinct compensation component, separate from net plant and loss of revenue.

In this proceeding, Xcel should be compensated for incremental, Slayton-specific integration expenses, such as removal or relocation of equipment, necessary system reconfiguration, and related engineering—provided these costs are clearly caused by the transfer, reasonably estimated, and not double-counted in net plant or loss-of-revenue calculations.

The Commission may require Xcel to provide a reconciliation and true-up of estimated and actual integration costs upon completion of the transfer.

*E. OTHER APPROPRIATE FACTORS*

**Q. What issues do you view as "other appropriate factors" in this proceeding?**

A. Under both Minn. Stat. § 216B.44 and § 216B.45, "other appropriate factors" is a residual category for case-specific impacts not captured by the other three factors. In Minn. Stat. § 216B.44 orders, the Commission has used this category to address issues such as wholesale supplier impacts and unique contractual arrangements. In this docket, "other factors" might include:

- Documented wholesale power cost impacts that are not already reflected in avoided-purchased-power costs; or
- Demonstrable diminished value of upstream facilities substantially dedicated to Slayton and not fully reflected in net plant or net revenue loss.

**Q. How should the Commission treat potential stranded substation investment?**

A. If the record shows that a specific substation or similar asset was primarily justified by Slayton's load and will become significantly underutilized or unused after transfer, it may be appropriate to include some portion of its net book value in just compensation under "other appropriate factors." However, I conclude that it may be appropriate for the Commission to:

- Require Xcel to analyze how that asset will be used after the transfer, including its value to remaining customers and the regional system;
- Limit any stranded-asset recovery to the portion clearly attributable to the loss of Slayton; and
- Ensure that any stranded-asset amount is not already embedded in the loss-of-revenue analysis (for example, through a substation-related cost category), to avoid double-counting.

My testimony does not recommend that any asserted impact be recognized as an "other appropriate factor" or assign a magnitude to such impacts; rather, it identifies the types of issues that have been treated as "other factors" in prior municipal acquisition orders so the Commission can evaluate whether similar treatment is warranted on this record.

## V. SUMMARY OF ANALYSIS

**Q. Based on your analysis, what do you conclude?**

A. Based on my understanding, Minn. Stat. § 216B.45 provides that in order to determine just compensation, the Commission shall consider original cost less depreciation, loss of revenue to the utility, expenses resulting from integration of facilities, and other appropriate factors. This four-factor framework is identical to that in Minn. Stat. § 216B.44, and the Commission's Minn. Stat. § 216B.44 decisions provide detailed guidance on implementing those factors.

I conclude that it may be appropriate for the Commission to:

- Apply a ten-year net-revenue-loss method for loss of revenue;
- Define avoided costs narrowly as costs Xcel will actually shed when Slayton departs;
- Include both existing and reasonably foreseeable future customers in the revenue-loss analysis;
- Consider a per-kWh mill-rate structure for the loss-of-revenue component;
- Allow key cost inputs to be updated as of the transfer date while keeping the methodology and horizon fixed, and
- Allow Xcel to be compensated for incremental, Slayton-specific integration expenses, such as removal or relocation of equipment, necessary system

reconfiguration, and related engineering – provided these costs are clearly caused by the transfer, reasonably estimated, and not double-counted in net plant or loss-of-revenue calculations. Note, the Commission may require Xcel to provide a reconciliation and true-up of estimated and actual integration costs upon completion of the transfer.

**Q. Does this complete your rebuttal testimony?**

A. Yes.