

**BEFORE THE MINNESOTA COURT OF ADMINISTRATIVE HEARINGS  
600 NORTH ROBERT STREET  
ST. PAUL, MINNESOTA 55101**

**FOR THE MINNESOTA PUBLIC UTILITIES COMMISSION  
SUITE 350  
121 SEVENTH PLACE EAST  
ST. PAUL, MINNESOTA 55101-2147**

Katie Sieben	Chair
Joseph Sullivan	Vice Chair
Hwikwon Ham	Commissioner
Audrey Partridge	Commissioner
John Tuma	Commissioner

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

CAH File No. 28-2500-40515

MPUC Docket No. E-002/GR-24-320

**PROPOSED FINDINGS OF FACT,  
CONCLUSIONS OF LAW, AND  
RECOMMENDATIONS OF THE  
DEPARTMENT OF COMMERCE**

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The Minnesota Public Utilities Commission (“Commission”) referred this matter to the Court of Administrative Hearings for a contested-case proceeding in December 2024. Administrative Law Judge Joseph C. Meyer was assigned to the matter. The Commission directed the Judge to address the reasonableness of Xcel Energy’s proposed rates for electric service in Minnesota.

An evidentiary hearing was held on December 17–18, 2025. Initial briefs were filed on January 28, 2026. Reply briefs were filed on February 25, 2026.

Ian Dobson, Northern States Power Company; Eric F. Swanson, Elizabeth H. Schmiesing, and Christopher J. Cerny, Winthrop & Weinstine, P.A.; Elizabeth M. Brama and Valerie T. Herring, Taft Stettinius & Hollister LLP; and Ryan P. Barlow and Patrick T. Zomer, Cozen O’Connor, appeared on behalf of Northern States Power Company, d/b/a Xcel Energy (“Xcel”).

Richard Dornfeld, Katherine Arnold, Steve Melchionne, and Amrit Hundal, Assistant Attorneys General, appeared on behalf of the Minnesota Department of Commerce (“Department”).

Peter G. Schultz, Joey Cherney, and Wendy Raymond, Assistant Attorneys General, appeared on behalf of the Minnesota Office of the Attorney General—Residential Utilities Division (“OAG”).

Brian Edstrom, Senior Regulatory Advocate, Brandon Crawford and Olivia J. Carroll, Regulatory Advocates, appeared on behalf of the Citizens Utility Board of Minnesota (“CUB”).

Andrew Moratzka, Amber Lee, and Eden Fauré, Stoel Rives, LLP, appeared on behalf of Xcel Large Industrials (“XLI”).

Joseph L. Sathe and Samuel B. Ketchum, Kennedy & Graven, Chartered, appeared on behalf of the Suburban Rate Authority (“CUB”).

George Shardlow, Executive Director, appeared on behalf of the Energy CENTS Coalition (“ECC”).

Colette N. Brashears, Kutak Rock LLP, appeared on behalf of Walmart, Inc. (“WAL”).

Ashley Marcus, Financial Analysis Supervisor, appeared on behalf of the Public Utilities Commission.

### STATEMENT OF THE ISSUES

1. Are the Company's proposed capital structure and return on equity reasonable?
2. Is the test-year revenue increase sought by the Company reasonable or will it result in unreasonable and excessive earnings by the Company?
3. Is the revenue apportionment and rate design proposed by the Company reasonable?

### SUMMARY OF RECOMMENDATIONS

The Commission should reduce Northern States Power Minnesota d/b/a Xcel Energy's proposed 9.4% rate increase (\$344.3 million) for 2025 and a 3.3% rate increase (\$129.4 million) for 2026 to no more than 2.2% (\$80.5 million) for 2025 and 3.36% (\$136.4 million) for 2026. In adjusting Xcel's proposal, the Commission should further maintain the Company's existing return on equity of 9.25%. As discussed below, the record demonstrates that Xcel's original proposals are unnecessary to deliver safe and reliable service, maintain the Company's financial integrity, or to fairly compensate investors.

### LEGAL STANDARD

1. In a rate case proceeding, the utility is only entitled to a non-confiscatory rate.<sup>1</sup> A rate is confiscatory only when the utility establishes with specific information that the "total effect" of the Commission's order jeopardizes the utility's financial integrity, either by leaving it with insufficient operating capital or by impeding its ability to raise future capital.<sup>2</sup> In evaluating whether the "total effect" of the rate order is confiscatory, courts consider whether the rate enables the utility to operate successfully, maintain its financial integrity, attract capital, and compensate investors for the business risk assumed.<sup>3</sup> Courts also consider the relative size of the denial to the utility's overall rate base and authorized revenues.<sup>4</sup> This standard reflects the reality that ratemaking requires pragmatic adjustments to reach a final result that is just and reasonable for both the utility and its customers.<sup>5</sup>

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<sup>1</sup> *Fed. Power Comm'n v. Nat. Gas Pipeline Co. of Am.*, 315 U.S. 575, 585 (1942).

<sup>2</sup> *In re Request for Serv. in Qwest's Tofte Exch.*, 666 N.W.2d 391, 398 (Minn. Ct. App. 2003) (citing *Duquesne Light Co. v. Barasch*, 488 U.S. 299, 310 (1989)).

<sup>3</sup> *Fed. Power Comm'n v. Hope Nat. Gas Co.*, 320 U.S. 591, 605 (1944).

<sup>4</sup> *Duquesne Light Co. v. Barasch*, 488 U.S. 299, 310 (1989).

<sup>5</sup> *Fed. Power Comm'n v. Nat. Gas Pipeline Co. of Am.*, 315 U.S. 575, 585 (1942); *Minnegasco v. Minn. Pub. Utils. Comm'n*, 549 N.W.2d 904, 908 (Minn. 1996).

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2. In establishing the utility’s financial needs, the utility has the burden of proof.<sup>6</sup> As in all civil matters, the burden of proof encompasses two requirements: (1) the burden of producing sufficient evidence to establish a particular fact satisfactorily to the judge; and (2) the burden of persuading the trier of fact that the alleged fact is true.<sup>7</sup> Thus, like any litigant with the burden of proof, the utility must produce sufficient evidence to establish that any fact it relies upon is more likely than not true.<sup>8</sup> If evidence of a fact is equally balanced, then it has not been established by a preponderance of the evidence.<sup>9</sup> The Commission evaluates whether the utility has met this burden in its quasi-judicial capacity.<sup>10</sup>

3. Even if the utility meets its initial burden of proof, it also has a second burden unique to ratemaking proceedings. The utility must prove that the costs it seeks to recover from customers are just and reasonable as a matter of policy.<sup>11</sup> In its quasi-legislative capacity, the Commission must determine whether the evidence, even if true, justifies the conclusion sought by Xcel considered together with the Commission’s statutory responsibility to enforce the state’s public policy that retail consumers of utility services shall be furnished at reasonable rates.<sup>12</sup> This second requirement reflects the limited constitutional standard applicable to ratemaking. Beyond the merits of any particular sub-issue, the Commission considers the “total effect” of its cumulative decisions on the overall rates.<sup>13</sup> Put differently, even if a cost could be included in rates, the Commission may decline to do so if excluding it would not jeopardize the utility’s financial integrity.

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<sup>6</sup> Minn. Stat. § 216B.16, subd. 4 (2024) (“The burden of proof to show that the rate change is just and reasonable shall be upon the public utility seeking the change.”); Minn. R. 1400.7300, subp. 5 (2025).

<sup>7</sup> *Caprice v. Gomez*, 552 N.W.2d 753, 757 (Minn. Ct. App. 1996); Minn. R. 1400.7300, subp. 5 (2025).

<sup>8</sup> *In re Appeal by Kind Heart Daycare, Inc.*, 905 N.W.2d 1, 6–7 (Minn. 2017); *State by Humphrey v. Alpine Air Products*, 500 N.W.2d 788, 792 (Minn. 1993).

<sup>9</sup> *City of Lake Elmo v. Metro. Council*, 685 N.W.2d 1, 4 (Minn. 2004) (citing *Netzer v. N. Pac. Ry. Co.*, 57 N.W.2d 247, 253 (Minn. 1953)).

<sup>10</sup> Minn. Stat. § 216A.05, subd. 1 (2022); *Hibbing Taconite Co. v. Minn. Pub. Serv. Comm’n*, 302 N.W.2d 5, 9 (Minn. 1980); *St. Paul Area Chamber of Comm.*, 251 N.W.2d at 358

<sup>11</sup> *In re Pet. of N. States Power Co. for Auth. to Change Its Schedule of Rates for Elec. Serv. in Minn.*, 416 N.W.2d 719, 726 (Minn. 1987); see also *In re Appl. of Interstate Power Co. for Auth. to Increase Its Rates for Elec. Serv. in the State of Minn.*, 500 N.W.2d 501, 504 (Minn. Ct. App. 1993) (“A petitioning utility has the burden of proving to the [Commission] that its proposed assets and revenue requirements are accurate, just, and reasonable[.]”).

<sup>12</sup> *In re Pet. of N. States Power Co. for Auth. to Change Its Schedule of Rates for Elec. Serv. in Minn.*, 416 N.W.2d 719, 722–23, 726 (Minn. 1987).

<sup>13</sup> *In re Request for Serv. in Qwest’s Tofte Exch.*, 666 N.W.2d at 398; *Duquesne Light Co.*, 488 U.S. at 310.

4. In sum, ratemaking is a matter of balance, considering both the public’s need for “adequate, efficient, and reasonable service” and the company’s need for sufficient revenue to meet its cost of service.<sup>14</sup> Any doubt as to reasonableness should be resolved in favor of the consumer.<sup>15</sup>

## FINDINGS OF FACT

### I. BACKGROUND

#### A. Rate Case Proceedings

5. A rate case is a proceeding to determine whether the overall rates paid by customers require adjustment based on changes to the utility’s “revenue requirement” since its last rate case.<sup>16</sup> A revenue requirement is the approximate amount of money that a utility needs to collect from customers to pay all costs of service, including a reasonable return for its investors.<sup>17</sup> A revenue requirement has three main components: “rate base” multiplied by a “rate of return” plus the net difference between “operating revenues and expenses.”<sup>18</sup>

6. Rate base and operating revenues and expenses frequently change as utilities operate their businesses.<sup>19</sup> Because rate base and operating revenues and expenses are subject to frequent change, the Commission evaluates the utility’s financial needs based on a representative “test year,” which is a recent or forecasted twelve-month period.<sup>20</sup> The test year is intended to provide a reasonable snapshot of the utility’s operations.<sup>21</sup> Using the test year, the Commission’s evaluation includes a detailed review of financial factors affecting utility operations.<sup>22</sup>

7. Because the test year only provides a snapshot, the utility’s investors benefit from increased profits when the utility’s actual expenses are less than expected.<sup>23</sup> If actual expenses are higher than expected, then the utility has to accept less profit, operate more efficiently, or increase sales.<sup>24</sup> When it is no longer tenable for the utility to provide service under its existing rate structure, the utility can file a new rate case to

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<sup>14</sup> Minn. Stat. § 216B.16, subd. 6 (2024).

<sup>15</sup> Minn. Stat. § 216B.03 (2024).

<sup>16</sup> Ex. DOC-1 at 6 (Johnson Direct); Minn. R. 7825.3100, subp. 6 (2025).

<sup>17</sup> Ex. DOC-1 at 6 (Johnson Direct).

<sup>18</sup> Ex. DOC-1 at 6 (Johnson Direct); Joel B. Eisen et al, *Energy, ECONOMICS, AND THE ENVIRONMENT* 457 (4th ed. 2015); Jonathan A. Lesser and Leonardo R. Giacchino, *FUNDAMENTAL OF ENERGY REGULATION* 63 (2d ed. 2013).

<sup>19</sup> Ex. DOC-1 at 8 (Johnson Direct).

<sup>20</sup> Minn. R. 7825.3100, subp. 17 (2025).

<sup>21</sup> Ex. DOC-1 at 8–9 (Johnson Direct).

<sup>22</sup> Ex. DOC-1 at 8–9 (Johnson Direct).

<sup>23</sup> Ex. DOC-1 at 9 (Johnson Direct).

<sup>24</sup> Ex. DOC-1 at 9 (Johnson Direct).

initiate a holistic review of its financial needs.<sup>25</sup> This delay between rate proceedings—called “regulatory lag”—is an important feature of utility ratemaking. A reasonable level of lag protects ratepayers when the utility acts inefficiently or makes wrong guesses. Lag also benefits utilities by allowing them to earn higher profits from superior performance.<sup>26</sup> In short, this framework mimics market competition by forcing the utility to compete with the test-year version of itself to maximize profit.<sup>27</sup>

8. In Minnesota, utilities can apply for rate increases with multi-year rate plans (“MYRPs”). These plans incorporate annual increases over several years, ranging from two to five years.<sup>28</sup> Proponents suggest that MYRPs incentivize efficient utility management by incrementally increasing rates based “on cost forecasts, industry cost trends or both, rather than the utility’s specific costs.”<sup>29</sup> Proponents theorize that giving the utility a step increase while preventing the utility from filing new rate cases during the MYRP’s term and allowing the utility to profit from sound decision-making incentivizes efficient management.<sup>30</sup> The MYRP model is supposed to give the utility predictable increases for a moderate time period while forcing the utility to live within its means.

## **B. Background on Xcel Energy**

9. As shown below, Xcel Energy, Inc. (“XEI”) is a public utility holding company with several subsidiaries.<sup>31</sup> One of its operating companies is Northern States Power Minnesota (“NSPM”) which is an electric and natural gas utility operating in Minnesota and the Dakotas. NSPM has more than 1.5 million electric customers in these three states.<sup>32</sup> Another subsidiary, Northern States Power Wisconsin, operates in Wisconsin and Michigan (“NSPW”).<sup>33</sup> XEI also has subsidiaries located in Colorado, Public Service Company of Colorado (“PSCo”); and in New Mexico and Texas, Southwestern Public Service Company (“SPS”).<sup>34</sup> These various subsidiaries all do business as Xcel Energy.<sup>35</sup> To support these operating companies, XEI maintains a service company, Xcel Energy Services Inc., (“XES”) that provides shared administrative, managerial, and support services.<sup>36</sup>

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<sup>25</sup> Ex. DOC-1 at 9–10 (Johnson Direct).

<sup>26</sup> Alfred Kahn, *THE ECONOMICS OF REGULATION: PRINCIPLES AND INSTITUTIONS* 48 (1988).

<sup>27</sup> Ex. DOC-1 at 10 (Johnson Direct).

<sup>28</sup> *Id.* at 14; Minn. Stat. 216B.16, subd. 19 (2024).

<sup>29</sup> Ex. DOC-1 at 16 (Johnson Direct); Mark Lowry et al, *State Performance-Based Regulation Using Multiyear Rate Plans for U.S. Electric Utilities* at 3.8 (2017).

<sup>30</sup> Ex. DOC-1 at 16 (Johnson Direct).

<sup>31</sup> Ex. DOC-1 at 19 (Johnson Direct).

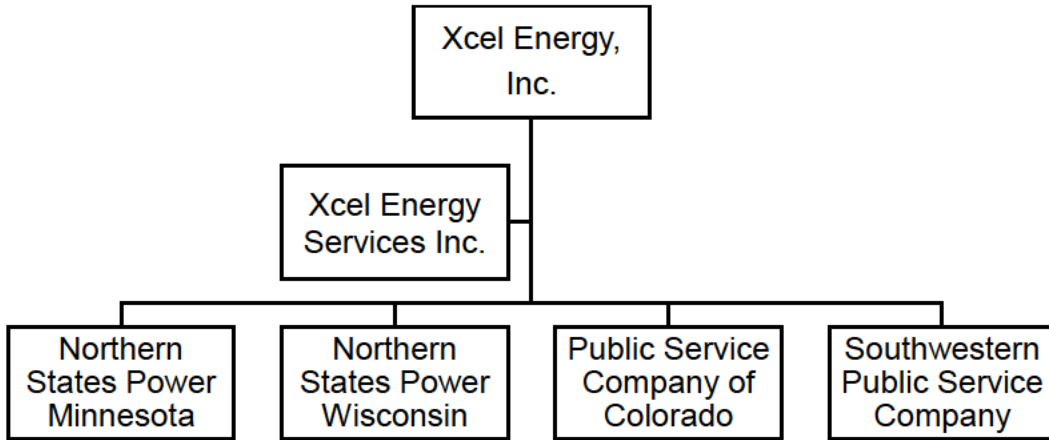
<sup>32</sup> Ex. DOC-1 at 19 (Johnson Direct).

<sup>33</sup> Ex. DOC-1 at 19 (Johnson Direct).

<sup>34</sup> Ex. DOC-1 at 19 (Johnson Direct).

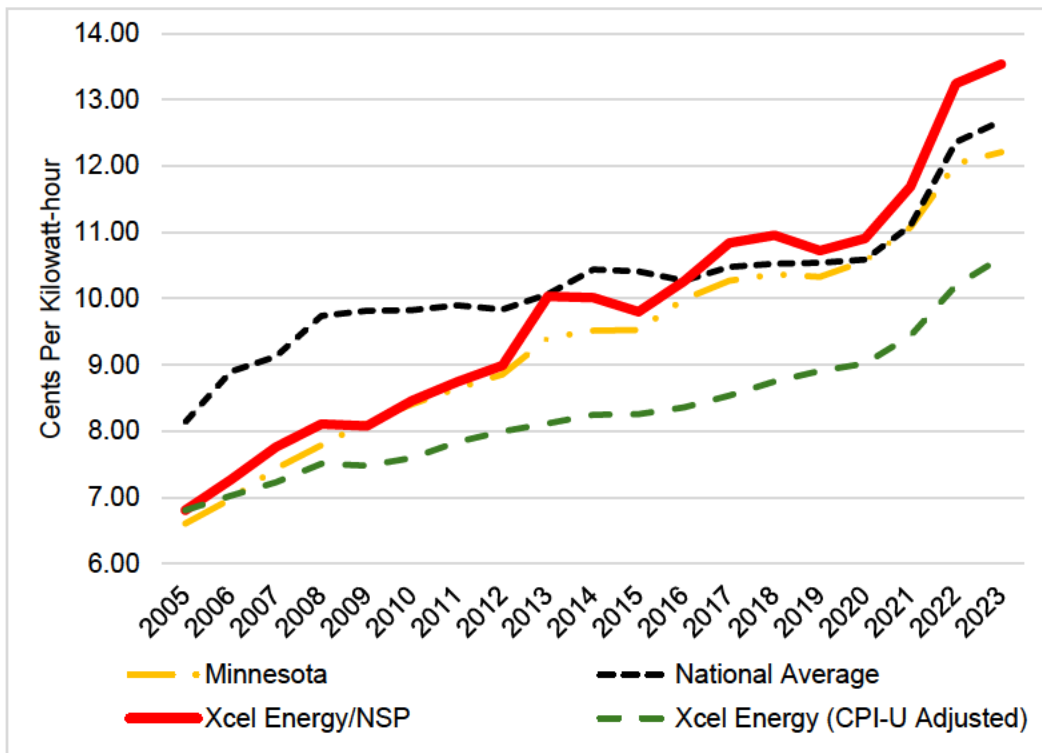
<sup>35</sup> Ex. DOC-1 at 19 (Johnson Direct).

<sup>36</sup> Ex. Xcel-9 at 2–3 (Appl. Vol. 5, Budget Documentation).



10. Since 2005, Xcel has experienced significant rate growth. As shown below, Xcel's rates have increased 98% since 2005, nearly double the inflation rate of the same period.<sup>37</sup> By 2023, Xcel's rates were nearly 3.5 cents and 5.5 cents higher than Minnesota Power's and Otter Tail Power's rates respectively.

**Xcel's Minnesota Electric Rates Since 2005<sup>38</sup>**



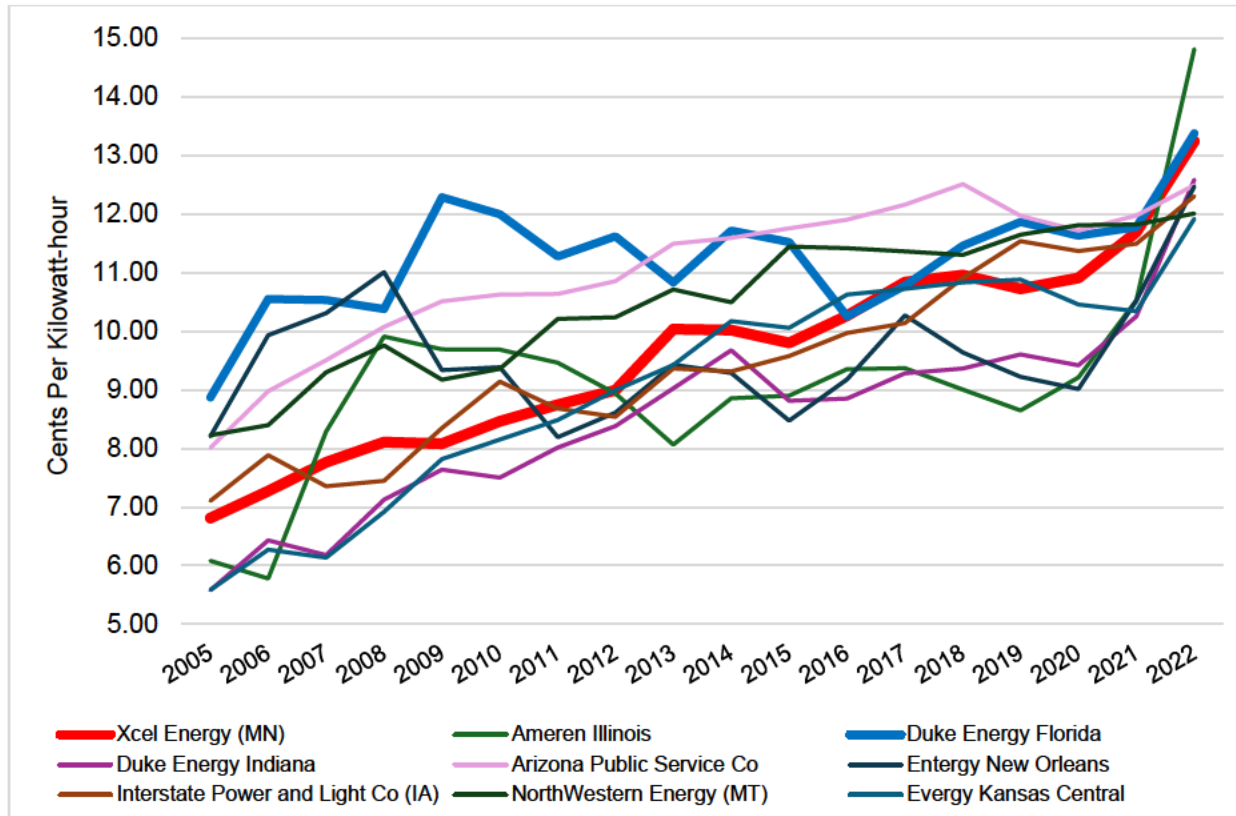
11. Xcel's rates also have grown faster than those of similar utilities nationally. As shown in the figure below, Xcel's 13.54 cents per kilowatt-hour rate in 2023 (the most

<sup>37</sup> Ex. DOC-1 at 22 (Johnson Direct).

<sup>38</sup> Ex. DOC-1 at 22 (Johnson Direct).

recent data at the time of direct testimony) was among the highest relative to its peer utilities.

**Xcel's Electric Rates Relative to Peer Utilities<sup>39</sup>**



12. Over this period, Xcel has filed rate cases at a steady rate. The size of the requests has increased: the 2013 MYRP resulted in a 5.9% increase, the 2015 MYRP resulted in an 8.1% increase, while the 2021 MYRP resulted in a 9.6% increase. By contrast, the largest rate increase in the four prior traditional rate cases was 5.5%.<sup>40</sup>

13. Increased rate recovery has benefited Xcel financially. Xcel reports routinely issued new debt and equity at favorable rates. In early 2024, for example, NSPM issued \$700 million in debt at rates favorable to comparable utilities, while XEI successfully issued \$1.2 billion in new equity later in the year.<sup>41</sup> In April 2025, NSPM again issued \$1.1 billion in debt at expected rates.<sup>42</sup>

14. Despite these new debt and equity issuances, Xcel's credit ratings have either improved or remained stable since at least June 2023. Fitch Ratings, for example,

<sup>39</sup> Ex. DOC-1, MAJ-D-3 at 4 (Johnson Direct).

<sup>40</sup> Ex. DOC-1 at 24 (Johnson Direct).

<sup>41</sup> Ex. Xcel-20 at 18 (Wehner Direct); Evid. Hrg. Tr. Vol. 1 at 43 (Wehner).

<sup>42</sup> Ex. Xcel-21 at 6 (Wehner Rebuttal).

assigned an “A+ rating” to NSPM’s \$700 million debt issuance in February 2024.<sup>43</sup> Fitch further concluded that NSPM’s long-term issuer rating remained stable at an “A-Rating.”<sup>44</sup> And then, in October 2025, Fitch revised XEI’s credit outlook from negative to stable.<sup>45</sup>

15. Consistent with its strong credit profile, broad metrics establish Xcel’s profitability. Between 2010 and 2024, XEI’s earnings per share attributable to NSPM increased 135%.<sup>46</sup> And most recently from 2023 to 2024, Xcel similarly saw its net income increase approximately \$220 million.<sup>47</sup> 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.<sup>48</sup>

16. Customers have paid for Xcel’s financial success. Xcel’s rates for industrial customers are now 13% above the national average.<sup>49</sup> Similarly, about 13% of Xcel’s residential customers now spend more than 6% of their income— a standard for threshold for excessive energy burden – on energy costs.<sup>50</sup> This has led to a spike in utility disconnections. As shown in the figure below, Xcel disconnected more than 52,000 residential customers in 2024, which was more than double the year before, and roughly double the number of disconnections conducted in – the previous record year – 2015.<sup>51</sup>

#### **Xcel Customer Disconnections: 2015 to 2025**

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<sup>43</sup> Evid. Hrg. Tr. Vol. 1 at 43 (Wehner).

<sup>44</sup> Evid. Hrg. Tr. Vol. 1 at 43 (Wehner).

<sup>45</sup> Evid. Hrg. Tr. Vol. 1 at 44 (Wehner).

<sup>46</sup> Ex. DOC-1 at 25 (Johnson Direct).

<sup>47</sup> Ex. DOC-26 at 49 (Xcel Energy, Inc.’s 2024 Form 10-K showing that Xcel’s net income was \$1.9 billion in 2024 compared with \$1.7 billion in 2024).

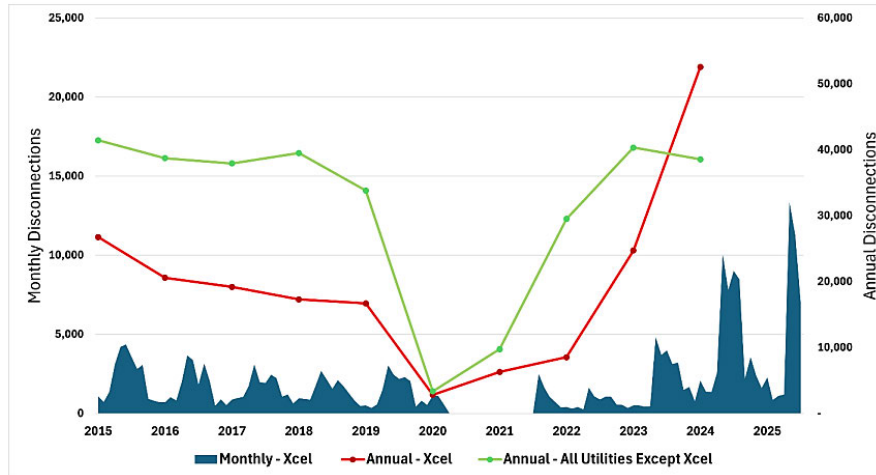
<sup>48</sup> *Compare* Xcel Letter at 1 (Oct. 1, 2025) (eDocket no. [202510-223492-01](#)), *with* Ex. DOC-27 at 2 (DOC Request 3118).

<sup>49</sup> Ex. XLI-3 at 32 (Ly Direct).

<sup>50</sup> Ex. JIN-2 at 31 (Chan Direct).

<sup>51</sup> Ex. CUB-3 at 1011 (Levenson-Falk Direct).

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17. Beyond rising rates, other customers report declining service. An association of commercial customers, for example, complained that their members had experienced delayed and inaccurate invoices, misapplied payments, disconnection notices, and failure to account for net metering since at least 2022.<sup>52</sup> Some errors were extreme, such as a \$37.4 million bill and multi-month delays causing cash flow disruptions.<sup>53</sup>

### C. Xcel’s Current Rate Case Proposal

18. Xcel filed this multiyear rate case in 2024. As revised in supplemental direct testimony, in total Xcel seeks a \$473.6 million or 12.7% increase.<sup>54</sup> This represents a \$344.3 million (9.4%) increase for 2025 and \$129.4 million (3.3%) for 2026.<sup>55</sup> The largest driver of this proposed rate increase is Xcel’s claimed entitlement to a 10.3% return on equity. This change from its current 9.25% return on equity alone would increase rates by about \$103.4 million annually.<sup>56</sup>

19. This is unlikely to be Xcel’s last rate increase in the near term. Xcel will likely apply for a new rate increase in late 2026, using a 2027 test year.<sup>57</sup> That would mark the company’s third rate-case application in five years, with related rate increases occurring each year.<sup>58</sup>

<sup>52</sup> BOMA Greater Mpls. Pub. Cmt. at 1 (July 2, 2025) (eDocket no. [20257-220649-01](#)).

<sup>53</sup> *Id.*

<sup>54</sup> Ex. Xcel-18, BCH-D-2 (Halama Supplemental Direct).

<sup>55</sup> NOTICE AND ORDER FOR HEARING at 1 (Dec. 30, 2024) (eDocket no. [202412-213391-01](#)).

<sup>56</sup> Ex. Xcel-25 at 6 (Nowak Rebuttal); Ex. DOC-1 at 43 (Addonizio Direct).

<sup>57</sup> Ex. DOC-1 at 27 (Johnson Direct).

<sup>58</sup> Ex. DOC-1 at 27 (Johnson Direct).

## II. COST OF CAPITAL

### A. Introduction and Legal Standard

20. As part of setting rates, the Commission must set an authorized rate of return. This return incentivizes investors to finance capital expenditures made by the utility. The return also is necessary to compensate investors for the opportunity costs and business risks associated with investing in the utility.<sup>59</sup>

21. Acknowledging this necessity, 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.<sup>53</sup>

22. The U.S. Supreme Court established the hallmarks of a reasonable return on capital, including a reasonable rate of return on common equity, in *Bluefield* and *Hope*.<sup>64</sup> The Court explained utilities should be permitted to earn a return equal to investments with corresponding risks and uncertainties.<sup>60</sup> The Court also stated “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.”<sup>61</sup> The Court cautioned, however, that a public utility has “no . . . right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures.”<sup>62</sup>

23. Echoing the *Bluefield* and *Hope* requirements, the Minnesota Supreme Court has explained:

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.<sup>63</sup>

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<sup>59</sup> Ex. DOC-1 at 7–8 (Johnson Direct).

<sup>60</sup> *Fed. Power Comm’n v. Hope Nat. Gas Co.*, 320 U.S. 591 (1944); *Bluefield Water Works & Improvement Co. v. Pub. Serv. Comm’n of W. Va.*, 262 U.S. 679 (1923).

<sup>61</sup> *Fed. Power Comm’n v. Hope Nat. Gas Co.*, 320 U.S. 591, 605 (1944).

<sup>62</sup> *Bluefield Water Works & Improvement Co. v. Pub. Serv. Comm’n of W. Va.*, 262 U.S. 679, 692–93 (1923).

<sup>63</sup> *Hibbing Taconite Co. v. Minn. Pub. Serv. Comm’n*, 302 N.W.2d 5, 10 (Minn. 1980)

24. The *Hibbing* Court also *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.”<sup>64</sup>

25. The Commission has observed that “[s]etting the cost of equity is a fact-intensive and record-specific judgment.”<sup>65</sup> The Commission considers the record as a whole, with the objective of establishing a reasonable return based on the record in its entirety.<sup>66</sup>

## **B. Capital Structure.**

26. As part of determining the overall rate of return, the Commission must approve a capital structure for Xcel. A capital structure refers to the combination of short-term debt, long-term debt, and equity that a utility uses to finance its operations. Each financing option offers a different set of trade-offs. Short-term debt is the least risky for investors, and thus has the lowest required rate of return. Equity is the riskiest and has the highest required rate of return. Long-term debt falls between.<sup>67</sup>

27. Debt financing can appear to be the most favorable option because the required returns tend to be lower and it can offer tax advantages not available for equity. But debt is not without its disadvantages. Interest and principal payments on debt are fixed, such that as a company’s debt load grows, so do its fixed payment obligations. As the company’s fixed obligations grow, the risk that adverse circumstances will prevent the company from meeting those obligations grows too.<sup>68</sup>

28. These dynamics mean that a company’s cost of debt, cost of equity, and capital structure are all interrelated. They also mean there is a theoretical optimal capital structure for each company that minimizes its pre-tax weighted average cost of capital.<sup>69</sup>

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<sup>64</sup> *Hibbing Taconite Co. v. Minn. Pub. Serv. Comm’n*, 302 N.W.2d 5,11 (Minn. 1980)

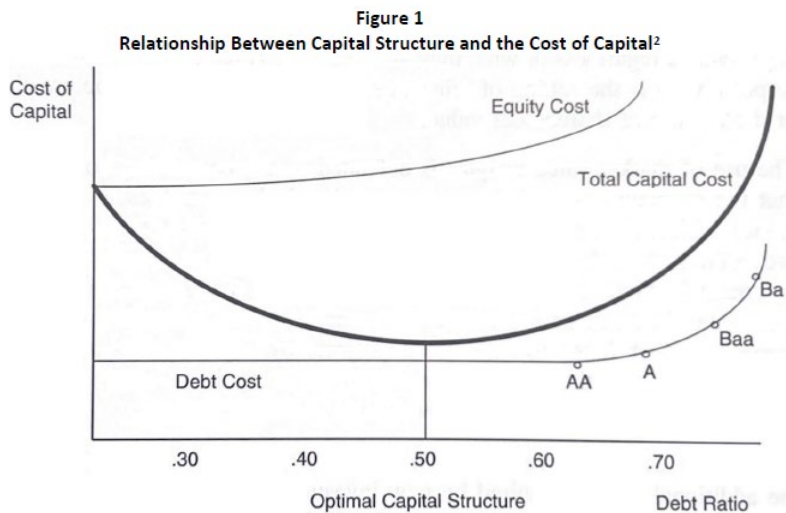
<sup>65</sup> *In re Appl. of Minn. Energy Res. Corp. for Auth. to Increase Rates for Nat. Gas Serv. in Minn.*, MPUC Docket No. G-011/GR-17-563, FINDINGS OF FACT, CONCLUSIONS, & ORDER at 26 (Dec. 26, 2018) (eDocket No. [201812-148702-01](#)) (MERC 2017 Rate Case Order).

<sup>66</sup> *In re Minn. Energy Res. Corp.’s Appl. for Auth. To Increase Nat. Gas Serv. Rates in Minn.*, Docket No. G-011/GR-17-563, FINDINGS OF FACT, CONCLUSIONS, & ORDER at 26 (Dec. 26, 2018) (eDocket no. [201812-148702-01](#)).

<sup>67</sup> Ex. DOC-12 at 9 (Addonizio Direct).

<sup>68</sup> Ex. DOC-12 at 10 (Addonizio Direct).

<sup>69</sup> Ex. DOC-12 at 11–12 (Addonizio Direct).



29. Generally, starting from a low level of debt, the incremental risk added from increasing the proportion of debt in a company’s capital structure is small enough that the tax savings generated by the new debt more than offsets the increase in the costs of debt and equity that result from the increased risk. Past a certain point, however, the effect of the increased risk more than offsets the incremental tax savings, and the increasing debt causes more harm than benefit.<sup>70</sup>

30. In this case, Xcel proposes maintaining its existing capital structure with updated long-term and short-debt cost rates.<sup>71</sup>

<b>NSPM Proposed Capital Structures</b>		
	2025	2026
	Test Year	Plan Year
Long-Term Debt Ratio	46.71%	46.50%
Short-Term Debt Ratio	0.79%	1.00%
Common Equity Ratio	52.50%	52.50%

31. Xcel did not address whether its proposed capital structure minimizes costs. Instead, the Company offered anecdotal examples of how its existing capital structure reduced borrowing costs for specific debt issuances relative to other utilities.<sup>72</sup> While these examples are helpful, they do not explain the trade-offs between the uses of debt and equity, or where its proposed capital structure falls on the total capital cost line shown in the graph above.<sup>73</sup>

<sup>70</sup> Ex. DOC-12 at 11–12 (Addonizio Direct).

<sup>71</sup> Ex. DOC-12 at 32 (Addonizio Direct).

<sup>72</sup> Ex. DOC-12 at 23–24 (Addonizio Direct).

<sup>73</sup> Ex. DOC-12 at 12, 24 (Addonizio Direct).

32. In reviewing Xcel's proposal, the Department concluded that Xcel's capital structure may include a higher-than-optimal level cost of capital. The Department reached this conclusion by comparing Xcel's proposed capital structure with the capital structures of the companies in the Department's proxy group. This analysis showed that Xcel's capital structure relied more heavily on equity and less on long-term debt than all 16 other proxy companies.<sup>74</sup>

33. Although the Department had concerns with the Company's proposal, the Department did not recommend an alternative capital structure.<sup>75</sup> The Department reasoned that Xcel had used its proposed capital structure for many years, and that the Commission had approved its use dating to 2008.<sup>76</sup> Rather than making an adjustment, the Department recommended that the Commission take Xcel's high equity ratio into consideration when setting its authorized ROE.<sup>77</sup> The Department also recommended that the Commission require Xcel to demonstrate that its proposed capital structure is cost-minimizing or reasonably departs from the least cost capital structure in future rate case proceedings.<sup>78</sup>

34. The Judge concurs with the Department's assessment. The Commission should adopt Xcel's proposed capital structure for purposes of this case but require the Company to provide more robust analytical support for its proposed capital structure in future cases. Absent more information, the Commission will be unable to ascertain whether Xcel's proposed capital structure is minimizing overall financing costs as opposed to simply allowing the Company to borrow at the lowest rates. And to the extent that Xcel is pursuing a more equity heavy capital structure than might otherwise seem optimal, it should explain that decision and the implicit trade-offs in detail.

### **C. Return on Equity**

35. Although the terms are often used interchangeably, "cost of equity" and "return on equity" identify distinct concepts. Cost of equity is the minimum return that investors require to invest in a company's stock and is a long-run concept. A company's return on equity is the actual return that the company generates.<sup>79</sup> For a regulated utility, authorized return on equity is a value determined by the regulator to represent a return sufficient to enable the company "to operate successfully, to maintain its financial integrity, to attract capital, and to compensate its investors for the risks assumed."<sup>80</sup>

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<sup>74</sup> Ex. DOC-12 at 27-29 (Addonizio Direct).

<sup>75</sup> Ex. DOC-12 at 31–32 (Addonizio Direct).

<sup>76</sup> Ex. DOC-12 at 32 (Addonizio Direct).

<sup>77</sup> Ex. DOC-12 at 32 (Addonizio Direct).

<sup>78</sup> Ex. DOC-12 at 100 (Addonizio Direct).

<sup>79</sup> Ex. Xcel-26 at 7 (Johnson Rebuttal).

<sup>80</sup> *Hope*, 320 U.S. at 605.

36. The allowed ROE has a substantial financial effect on the utility's revenue requirement and, therefore, on what consumers must pay. In this case, each additional basis point of authorized ROE adds approximately \$985,000 to Xcel's revenue deficiency.<sup>81</sup>

37. In Xcel's last rate case, the Commission authorized a 9.25% return on equity. In this case, five parties offered ROE adjustments for consideration:

Party	Recommendation
Xcel	10.30%
Department	9.25%
CUB	9.0%
XLI	8.96%
Walmart	No higher than 9.25%

### 1. Proxy Groups

38. One standard method for estimating the cost of equity of a private company like Xcel is to refer to a proxy group of publicly traded companies that pose risks to equity investors similar to the investment risks the not publicly traded company poses.<sup>82</sup>

39. To develop an appropriate proxy group for estimating Xcel's cost of equity, the Department compiled a list of all companies categorized as electric utilities by Value Line, a well-known investor service.<sup>83</sup> The Department then applied various screens designed to make sure the proxy group companies were reasonably comparable to Xcel.<sup>84</sup> This process produced a list of 16 companies.<sup>85</sup> Starting with a list 36 investor-owned electric utility companies identified by Value Line, Xcel developed its own proxy group by applying various screens.<sup>86</sup> This process produced a list of 15 companies.<sup>87</sup>

40. Among the parties that relied upon proxy groups for cost of equity analyses, there were not any material differences between the groups. Instead, the differences between the various recommended ROEs are the result of the subsequent analyses conducted as discussed below.

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<sup>81</sup> Ex. DOC-12 at 43 (Addonizio Direct).

<sup>82</sup> Ex. DOC-12 at 14–15 (Addonizio Direct).

<sup>83</sup> Ex. DOC-12 at 16 (Addonizio Direct).

<sup>84</sup> Ex. DOC-12 at 17–20 (Addonizio Direct).

<sup>85</sup> Ex. DOC-12 at 20–21 (Addonizio Direct); see also Ex. DOC-13 at 4 (Addonizio Surrebuttal) (reflecting minor adjustments to account for developments).

<sup>86</sup> Ex. Xcel-24 at 31–33 (Nowak Direct).

<sup>87</sup> Ex. Xcel-24 at 33 (Nowak Direct).

## 2. Financial Models

41. There are various methodologies that may be used to estimate cost of equity. In this proceeding, parties offered cost of equity calculations based on the following models: Discounted Cash Flow (“DCF”), Capital Asset Pricing (“CAPM”), Bond Yield Plus Risk Premium, and Expected Earnings Analysis.

### i. Discounted Cash Flow

42. 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.<sup>88</sup>

43. 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 his or her respective proxy group, an analyst can estimate Xcel’s cost of equity.<sup>89</sup>

44. Estimating future dividend growth rates can be contentious. Some analysts prefer measures of earnings growth, but some use other accounting-based measures, such as dividend growth rates or book value per share growth rates. Some analysts prefer forward-looking estimates of growth derived from detailed financial and/or economic modeling, while others believe that historical trends and averages provide the best estimates of future growth.<sup>90</sup>

45. Growth rate assumptions are important to DCF analysis. Current stock prices and dividends are directly observable and therefore leave little room for disagreement between analysts. As a result, much of the variation in DCF results are attributable to growth rate assumptions. Growth rate assumptions can easily differ by two percentage points and yield comparable differences in the resulting estimates of the cost of equity.<sup>91</sup>

46. In this case, the Department relied on a multi-stage DCF analysis to anchor its estimate of Xcel’s cost of equity. In a multi-stage DCF, 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.<sup>92</sup>

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<sup>88</sup> Ex. DOC-12 at 40 (Addonizio Direct).

<sup>89</sup> Ex. DOC-12 at 40–41 (Addonizio Direct).

<sup>90</sup> Ex. DOC-12 at 41–42 (Addonizio Direct).

<sup>91</sup> Ex. DOC-12 at 43 (Addonizio Direct).

<sup>92</sup> Ex. DOC-12 at 46–47 (Addonizio Direct).

(a) For the first stage, the Department estimated that dividends would grow at forecasted 3-5-year earnings growth rates developed by respected investor services S&P Capital IQ Pro and Zacks Investment Research.<sup>93</sup> The Department used forecasted earnings growth rates, rather than dividend growth rates, to model expected dividend growth to account for short-term dividend growth influenced by management decisions instead of underlying earnings.<sup>94</sup>

(b) In the second stage, the Department assumed each proxy company’s dividend growth rate would converge linearly from the stage one growth rate to the stage three growth rate.<sup>95</sup> For purposes of running the analysis, the Department considered both a ten-year and a twenty-year second stage. The Department explained that empirical research suggests investors treat equity analysts’ forecasts as though they apply over a period of five to ten years. In addition, multi-stage DCF analyses in which the final, steady-state, perpetual stage begins in year eleven are relatively common in utility rate cases. As a conservative measure, the Department also used a twenty-year second stage for comparison.<sup>96</sup>

(c) In the third stage, the Department estimated that dividends would grow at the same rate as U.S. gross domestic product (“GDP”).<sup>97</sup> To estimate GDP growth, the Department relied on the mean of three different estimates produced by federal agencies:

**Summary of Growth Rates<sup>98</sup>**

	Low	Mean	High
<u>Long-Term GDP Growth Rates</u>			
Energy Information Administration	3.89%	4.03%	4.62%
Social Security Administration	2.45%	3.96%	5.36%
Congressional Budget Office		3.61%	
Average	3.17%	3.87%	4.99%
<u>Equity Analyst 5-Year Earnings Growth Rates</u>			
Average	6.63%	6.96%	7.29%
Difference	-3.45%	-3.09%	-2.30%

<sup>93</sup> Ex. DOC-12 at 46–47 (Addonizio Direct).

<sup>94</sup> Ex. DOC-12 at 47–48 (Addonizio Direct).

<sup>95</sup> Ex. DOC-12 at 46–47 (Addonizio Direct).

<sup>96</sup> Ex. DOC-12 at 52 (Addonizio Direct).

<sup>97</sup> Ex. DOC-12 at 46–47 (Addonizio Direct).

<sup>98</sup> Ex. DOC-12 at 51 (Addonizio Direct).

47. The Department reasoned that it was appropriate to transition from equity analysts' growth rates to forecasted GDP growth rates because financial literature suggests that equity analysts' long-term earnings growth forecasts are generally biased upwards, and overestimate future growth.<sup>99</sup> The Department also pointed to broad agreement that no company can grow at a rate faster than the economy as a whole in perpetuity, because a company that did so would eventually become larger than the economy as a whole, which is unreasonable on its face.<sup>100</sup>

48. To support its position that GDP growth is appropriate for the third-stage of a DCF analysis, the Department cited financial literature explaining that "long-term growth rates exceeding the real growth in GDP plus inflation are generally not sustainable." And, as a result, "most analysts use more conservative growth rates in calculating the terminal value."<sup>101</sup> The Department further pointed to historical data establishing a close relationship between earnings, dividend, and GDP growth since 1947.<sup>102</sup>

49. Applying this methodology, the Department produced the following multi-stage DCF results:

**Summary of Multi-Stage DCF Results<sup>103</sup>**

	Mean Low ROE	Mean Avg. ROE	Mean High ROE
Multi-Stage DCF with 10-year 2nd stage	8.16%	8.74%	9.63%
Multi-Stage DCF with 20-year 2nd stage	8.59%	9.13%	9.91%

50. In contrast to the Department, Xcel conducted constant growth and two-stage DCF analyses:

(a) To calculate its constant growth DCF results, Xcel relied on (i) average stock prices, over 30, 90, and 180 trading days through September 30, 2024; (ii) annualized dividend per share as of September 30, 2024; and (iii) proxy company-specific earnings growth forecasts for the expected growth rate.<sup>104</sup>

<sup>99</sup> Ex. DOC-12 at 48 (Addonizio Direct).

<sup>100</sup> Ex. DOC-12 at 42, 48–49 (Addonizio Direct).

<sup>101</sup> Ex. DOC-12 at 49–50 (Addonizio Direct).

<sup>102</sup> Ex. DOC-12 at 50 (Addonizio Direct).

<sup>103</sup> Ex. DOC-12 at 52 (Addonizio Direct).

<sup>104</sup> Ex. Xcel-24 at 35–36 (Nowak Direct).

Applying this methodology, Xcel produced the following constant growth DCF results:<sup>105</sup>

**Table 4**  
**Constant Growth DCF Results**

	Mean Low	Overall Mean	Mean High
30-day average	8.97%	10.18%	11.04%
90-day average	9.20%	10.42%	11.28%
180-day average	9.41%	10.63%	11.49%

(b) To calculate its two-growth DCF results, Xcel applied the Constant Growth DCF model earnings growth for the first five years (i.e., short-term growth rate) and then the proxy group average growth rate plus one standard deviation for companies with a high growth rate and the proxy group average minus one standard deviation for companies with a low growth rate in perpetuity.<sup>106</sup> Applying this methodology, Xcel produced the following two-growth DCF results:<sup>107</sup>

**Table 5**  
**Two-Growth DCF Results**

	Low	Mean	High
30-day average	8.68%	10.11%	12.55%
90-day average	8.89%	10.34%	12.77%
180-day average	9.02%	10.56%	13.00%

51. The Department and Xcel each asserted that the other's DCF analyses suffered from various flaws. In general, the Department asserted that Xcel's DCF

<sup>105</sup> Ex. Xcel-24 at 39 (Nowak Direct).

<sup>106</sup> Ex. Xcel-24 at 40–41 (Nowak Direct).

<sup>107</sup> Ex. Xcel-24 at 43 (Nowak Direct).

analyses suffered from unreasonably high growth rates. Xcel, for its part, asserted that the Department's use of a multi-stage DCF was, on its face, unreasonable.

52. According to the Department, Xcel's decision to rely solely on long-term earnings growth estimates produced by equity analysts was unreasonable. The Department asserted that these estimates are likely too high for the five-year period they purport to forecast and are not realistic as perpetual growth rates.<sup>108</sup> To support this position, the Department pointed out:

(a) Xcel's mean growth rates ranged between 6.35% and 6.44%, or more than 250 basis points above expected long-term GDP growth of 3.87%.<sup>109</sup>

(b) Xcel's average constant-growth and two-growth DCF results are substantially higher than most estimates of the cost of equity for U.S. stocks of average risk (represented by long-term forecasts of returns).<sup>110</sup>

(c) Xcel's risk, as a utility, is generally lower than non-utility stocks, exacerbating the difference between Xcel's DCF estimates and realistic investor expectations for utility stocks.<sup>111</sup>

53. In addition to these concerns, the Department asserted Xcel's cost of equity estimate was not credible because of witness bias. The Department pointed out that Xcel's witness Mr. Nowak is a vice president of the consulting firm Concentric Energy Advisors and that Xcel has been the source of a large amount of lucrative work for Concentric.<sup>112</sup> Mr. Nowak billed Xcel about [NOT PUBLIC DATA BEGINS . . . ██████████ . . . NOT PUBLIC DATA ENDS], and in Xcel's recent natural gas rate case, which settled after direct testimony, Mr. Nowak billed Xcel about [NOT PUBLIC DATA BEGINS . . . ██████████ . . . NOT PUBLIC DATA ENDS].<sup>113</sup> Counting this case, Mr. Nowak or one of his Concentric colleagues have testified on behalf of Xcel subsidiaries at least a dozen times since 2004, with at least one more case pending.<sup>114</sup> The Department asserted that

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<sup>108</sup> Ex. DOC-12 at 90–91 (Addonizio Direct).

<sup>109</sup> Ex. DOC-12 at 91 (Addonizio Direct).

<sup>110</sup> Ex. DOC-12 at 91 (Addonizio Direct).

<sup>111</sup> Ex. DOC-12 at 91 (Addonizio Direct).

<sup>112</sup> Evid. Hrg. Tr. Vol. 1 at 58 (Nowak).

<sup>113</sup> Ex. DOC-28 at 2 (DOC Request 006).

<sup>114</sup> *In re N. States Power Co.'s Appl. For Auth. To Increase Gas Rates in Minn.*, Docket No. G002/GR-04-1511, Direct Testimony of Robert B. Hevert at 2–3 (Sept. 17, 2004) (eDocket no. [1914824](#)) (recommending a 11.5% ROE for Xcel's gas distribution utility); *In re N. States Power Co.'s Appl. For Auth. To Increase Elec. Rates in Minn.*, Docket No. E002/GR-05-1428, Direct Testimony of Robert B. Hevert at 3 (469 of 562) (Nov. 2, 2005) (eDocket no. [160820](#)) (recommending a 11.0% ROE for Xcel's electric utility); *In re N. States Power Co.'s Appl. For Auth. To Increase Gas Rates in Minn.*, Docket No. G002/GR-06-1429, Direct Testimony of John J. Reed at 2 (Nov. 9, 2006) (eDocket no. [3565144](#)) (recommending a 11.0% ROE for Xcel's gas distribution utility); *In re N. States*

Concentric has likely earned millions of dollars from its ongoing relationship with Xcel since 2004, not including work for Xcel's affiliates in other states. The Department asserted, based on this relationship, that Mr. Nowak's significant financial interest in helping to obtain a favorable result for a valued client has at least implicitly affected his recommendations in this case.<sup>115</sup>

54. To support its contention that Mr. Nowak's analysis is tainted by bias, the Department pointed out that his ROE recommendations and those of his colleagues have remained stagnant for decades and that the Commission has never adopted any Concentric recommendation over that period.<sup>116</sup>

55. In response to the concerns raised by the Department that equity analysts overestimate future growth, Xcel asserted that such concerns had been addressed by the 2003 Global Analysts Research Settlement requiring financial institutions to insulate investment banking from analysis, prohibited analysts from participating in "road shows,"

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*Power Co.'s Appl. For Auth. To Increase Elec. Rates in Minn.*, Docket No. E002/GR-08-1065, Direct Testimony of John J. Reed at 3 (Nov. 3, 2008) (eDocket no. [5597494](#)) (recommending an ROE of no less than 11.25% for Xcel's electric utility); *In re N. States Power Co.'s Appl. For Auth. To Increase Gas Rates in Minn.*, Docket No. G002/GR-09-1153, Direct Testimony of John J. Reed at 2 (Nov. 12, 2009) (eDocket no. [200911-43962-06](#)) (recommending a 11.0% ROE for Xcel's gas distribution utility); *In re N. States Power Co.'s Appl. For Auth. To Increase Elec. Rates in Minn.*, Docket No. E002/GR-10-971, Direct Testimony of John J. Reed at 3 (Nov. 3, 2010) (eDocket no. [201011-56168-06](#)) (recommending a 11.25% ROE for Xcel's electric utility); *In re N. States Power Co.'s Appl. For Auth. To Increase Elec. Rates in Minn.*, Docket No. E002/GR-12-961, Direct Testimony of Robert B. Hevert at 2 (Nov. 2, 2012) (eDocket no. [201211-80320-05](#)) (recommending a 10.6% ROE for Xcel's electric utility); *In re N. States Power Co.'s Appl. For Auth. To Increase Elec. Rates in Minn.*, Docket No. E002/GR-13-868, Direct Testimony of Robert B. Hevert at 2 (Nov. 4, 2013) (eDocket no. [201311-93266-04](#)) (recommending a 10.25% ROE for Xcel's electric utility); *In re N. States Power Co.'s Appl. For Auth. To Increase Elec. Rates in Minn.*, Docket No. E002/GR-15-826, Direct Testimony of James M. Coyne at 4 (Nov. 2, 2015) (eDocket no. [201511-115334-01](#)) (recommending a 10.0% ROE for Xcel's electric utility); *In re N. States Power Co.'s Appl. For Auth. To Increase Elec. Rates in Minn.*, Docket No. E002/GR-19-564, Direct Testimony of John J. Reed at 3 (Nov. 1, 2019) (eDocket no. [201911-157100-08](#)) (recommending an ROE of no less than 10.2% for Xcel's electric utility); Ex. DOC-34 at 5 (eDocket no. [202512-226016-11](#)) (*In re N. States Power Co.'s Appl. For Auth. To Increase Gas Rates in Minn.*, Docket No. G002/GR-23-413, Rebuttal Testimony of Joshua C. Nowak at 4 (May 29, 2024) (recommending a 10.2% ROE for Xcel's gas distribution utility)); Ex. DOC-35 at 5 (eDocket no. [202512-226016-12](#)) (*In re N. States Power Co.'s Appl. For Auth. To Increase Gas Rates in Minn.*, Docket No. G002/GR-25-356, Direct Testimony of Joshua C. Nowak at 4 (Oct. 31, 2025) (recommending a 10.25% ROE for Xcel's gas distribution utility)).

<sup>115</sup> DOC Initial Br. at 31-32.

<sup>116</sup> DOC Initial Br. at 32-33.

and required the settling financial institutions to fund independent third-party research.<sup>117</sup> Xcel also asserted that analysts are required to certify that their compensation is not tied to their recommendations.<sup>118</sup>

56. The Department, in turn, disagreed with Xcel that the 2003 Global Analysts Research Settlement fully resolved concerns that equity analyst estimates are too optimistic. The Department pointed to a whitepaper that Xcel cited. Although that paper found analyst bias declined significantly for three years following the settlement, a subsequent study found that the gains were short-lived and concluded that none of the regulations in the settlement achieved their objectives over the long run.<sup>119</sup>

57. In response to the Department's multi-stage DCF analysis, Xcel leveled several criticisms:

(a) The Commission has rejected the use of multi-stage DCF analyses in prior rate cases.<sup>120</sup>

(b) Multi-stage DCF analyses are inappropriate for mature companies such as utilities because they rely on generic, economy-wide measures of growth.<sup>121</sup>

58. The Department contested Xcel's characterizations of prior Commission decisions. The Department asserted that the Commission has never categorically rejected multi-stage DCF. The Department cited the Commission's 2022 decision where it recognized they may be "particularly useful for smoothing out more sharply anticipated variations in growth rates."<sup>122</sup> The Department also pointed to the Commission's statement in Xcel's last rate case that "the two-growth DCF model is not the only useful model."<sup>123</sup> And that "relying too heavily on a single set of results from one model could inadvertently narrow the range of reasonable returns considered."<sup>124</sup> Finally, the Department noted that although the Commission did not purport to rely on a multi-stage

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<sup>117</sup> Ex. Xcel-25 at 28–29 (Nowak Rebuttal).

<sup>118</sup> Ex. Xcel-25 at 29–30 (Nowak Rebuttal).

<sup>119</sup> Ex. DOC-12 at 18–19 (Addonizio Direct).

<sup>120</sup> Xcel Initial Br. at 38.

<sup>121</sup> Ex. Xcel-25 at 23-24 (Nowak Rebuttal).

<sup>122</sup> *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](#)).

<sup>123</sup> *In re Appl. of N. States Power Co. for Authority to Increase Its Rates for Elec. Serv. in the State of Minn.*, E-002/GR-21-630, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 89 (July 17, 2023) (eDocket No. [20237-197559-01](#)).

<sup>124</sup> *In re Appl. of N. States Power Co. for Authority to Increase Its Rates for Elec. Serv. in the State of Minn.*, E-002/GR-21-630, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 89 (July 17, 2023) (eDocket No. [20237-197559-01](#)).

DCF to anchor its analysis, the Commission still adopted a 9.25% ROE—the exact figure recommended by the Department based on a multi-stage DCF.<sup>125</sup>

59. The Department also disagreed with Xcel’s contention that multi-stage DCF analyses relying on GDP growth as a proxy for dividend growth in the third-stage was inappropriate. The Department asserted that GDP growth was a reasonable proxy for long-term growth. By definition, GDP is a measurement of the monetary value of all finished goods and services produced within the United States during a specified period.<sup>126</sup> As a result, it is mathematical fact that no company can grow larger than the overall economy. But if a company could grow faster than GDP growth in perpetuity as Xcel’s modeling purports, that company would eventually defy that logical limitation.<sup>127</sup>

60. The Department also cited empirical evidence that dividends, earnings, corporate profits, and GDP growth all grew at comparable rates between 1947 and 2024.<sup>128</sup> The Department also asserted that the introduction of new companies into the aggregate measures necessarily means that existing companies, as a whole, grow at a slower rate, and many eventually go out of business.<sup>129</sup> As a result, the Department posited that the use of forecasted GDP growth as a long-term growth rate is reasonable, and arguably conservative in the Company’s favor.<sup>130</sup>

61. Next, the Department asserted that Xcel’s criticism of the multi-stage DCF was not credible because it conflicted with its own witness’s prior testimony. In 2020 and 2023 rate cases, Xcel’s witness Mr. Nowak recommended that the New York commission switch from the two-stage DCF model to the multi-stage model.<sup>131</sup> As part of this testimony, Mr. Nowak asserted that the multi-stage DCF “offer[ed] improvements” of the two-stage version because it avoided the abrupt shift from the initial period to the perpetual growth period.<sup>132</sup>

62. Lastly, the Department contended that Xcel’s criticism of GDP growth estimates also conflicted with Mr. Nowak’s prior testimony. In the same rate cases where he recommended adoption of the multi-stage DCF model, Mr. Nowak explained that “[l]ong-term estimates of GDP growth are commonly used in regulatory proceedings as a

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<sup>125</sup> *In re Appl. of N. States Power Co. for Authority to Increase Its Rates for Elec. Serv. in the State of Minn.*, E-002/GR-21-630, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 89 (July 17, 2023) (eDocket No. [20237-197559-01](#)).

<sup>126</sup> Ex. DOC-12 at 49 (Addonizio Direct).

<sup>127</sup> Ex. DOC-12 at 49 (Addonizio Direct); Ex. DOC-13 at 11 (Addonizio Surrebuttal).

<sup>128</sup> Ex. DOC-12 at 50 (Addonizio Direct); Ex. DOC-13 at 12–13 (Addonizio Surrebuttal).

<sup>129</sup> Ex. DOC-13 at 12–13 (Addonizio Surrebuttal).

<sup>130</sup> Ex. DOC-13 at 13 (Addonizio Surrebuttal).

<sup>131</sup> Ex. DOC-33 at 54 (Nowak 2023 Central Hudson Direct); *see also* Ex. DOC-31 at 61 (Nowak 2020 National Grid Direct) (making the same recommendation).

<sup>132</sup> Ex. DOC-33 at 45 (Nowak 2023 Central Hudson Direct); Ex. DOC-31 at 62 (Nowak 2020 National Grid Direct).

proxy for the long-term growth rate in the multi-stage DCF analysis.”<sup>133</sup> Mr. Nowak reasoned that GDP growth is inappropriate because “over the long-run, all companies in the economy will tend to grow at the same constant rate.”<sup>134</sup>

63. Based on the record, the Judge finds the Department’s multi-stage DCF analysis persuasive because it reflects a more realistic approach to estimating long-term growth. The Department’s methodology accounts for the fact that equity analysts’ short-term forecasts are often biased upward and cannot credibly serve as perpetual growth rates. By transitioning from analyst-based growth rates in the early years to GDP-based growth in the terminal stage, the Department’s model aligns with financial theory and empirical evidence that no company can grow faster than the economy indefinitely. This approach avoids the logical flaw inherent in Xcel’s constant-growth and two-stage models, which assume perpetual growth rates exceeding GDP growth, which is facially unreasonable and inconsistent with sustainable economic principles.

64. The Judge also finds that the Department’s use of a multi-stage DCF model is consistent with sound regulatory practice and prior Commission guidance. Contrary to Xcel’s assertion that multi-stage DCF has been categorically rejected, the Commission has previously acknowledged that such models may be “particularly useful for smoothing out more sharply anticipated variations in growth rates.”<sup>135</sup> The Department’s approach achieves this objective by avoiding abrupt shifts between short-term and perpetual growth periods and by incorporating conservative, economy-wide measures for the terminal stage. This methodology produces results that are both theoretically grounded and empirically supported, and therefore more credible than Xcel’s constant-growth and two-stage models.

65. The Judge further finds that Xcel’s DCF analyses are flawed because they rely exclusively on equity analyst forecasts for perpetual growth. These forecasts, while useful for near-term projections, are widely recognized as overly optimistic for long-term horizons. Xcel’s resulting growth assumptions, averaging over 6.3%, are not only significantly higher than expected GDP growth of approximately 3.9%, but also exceed most long-term forecasts of returns on U.S. equities of average risk. Given that Xcel is a regulated utility with lower risk than the broader market, these inflated growth assumptions render Xcel’s cost of equity estimates implausible and inconsistent with investor expectations for utility stocks.

66. Finally, the Judge finds that Mr. Nowak is not a credible witness. The record demonstrates that Mr. Nowak has a longstanding and financially significant relationship

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<sup>133</sup> Ex. DOC-31 at 69 (Nowak 2020 National Grid Direct); Ex. DOC-33 at 52 (Nowak 2023 Central Hudson Direct).

<sup>134</sup> Ex. DOC-31 at 69 (Nowak 2020 National Grid Direct); Ex. DOC-33 at 52 (Nowak 2023 Central Hudson Direct).

<sup>135</sup> *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](https://www.puc.state.mn.us/eDocket/2022-182349-01)).

with Xcel, with Concentric Energy Advisors likely earning millions from Xcel over two decades. This financial interest creates at least an implicit incentive to recommend outcomes favorable to Xcel. The Judge also notes that Concentric’s recommendations, including those offered by Mr. Nowak, on behalf of Xcel have remained largely unchanged since 2004 and that the Commission has never adopted any Concentric recommendation during that period. These facts, combined with prior testimony contradicting Mr. Nowak’s criticisms of the Department’s methodology, undermine his credibility and weigh against reliance on his analysis.

## ii. Capital Asset Pricing Model

67. Another model used by the parties to estimate Xcel’s cost of equity was the Capital Asset Pricing Model (“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.<sup>136</sup>

68. In its simplest form, the CAPM assumes the following:

$$k = r_f + \text{beta} (k_m - r_f)$$

where  $k$  is the required rate of return on the stock in question,  $r_f$  is the rate of return on a riskless asset, and  $k_m$  is the required rate of return on the market portfolio. The term in parentheses, which is the difference between the required market return and the risk-free rate, is called the market risk premium, and represents the additional return, over and above the risk-free rate investors require to hold a portfolio including all available investable assets. Beta is a measure of the stock’s tendency to move in parallel with the market portfolio. A stock that tends to go up 1% when the market goes up 1% (or down 1% when the market goes down 1%) has a beta of 1. A stock that tends to go up (down) by more than 1% when the market portfolio goes up (down) 1% has a beta greater than 1. Similarly, a stock that tends to go up (down) by less than 1% when the market portfolio goes up (down) 1% has a beta less than 1. In essence, the CAPM represents the required return for a particular security as the sum of the risk-free rate plus a risk premium over and above the risk-free rate. The risk premium of a particular security, scaled by beta, is proportional to the market risk premium.

69. Although theoretically sound, the Commission has observed, the CAPM “requires expert judgment at nearly every turn—determining the term of the risk-free, interest-bearing investments used as a bench mark, determining the time frame for calculating growth rates, determining the beta that represents market volatility, determining the historical periods over which to measure returns.”<sup>137</sup> This reliance on the

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<sup>136</sup> Ex. DOC-12 at 57-58 (Addonizio Direct).

<sup>137</sup> *In re Minn. Energy Res. Corp.’s Appl. for Auth. To Increase Nat. Gas Serv. Rates in Minn.*, Docket No. G-011/GR-17-563, FINDINGS OF FACT, CONCLUSIONS, & ORDER at 25 (Dec. 26, 2018) (eDocket no. [201812-148702-01](#)); see also *In re Pet. by Great Plains*

analysts’ judgment is unlike the DCF as “none of these inputs [in the CAPM] are simple matters of fact and public record.”<sup>138</sup> The subjectivity of these judgments means there can be significant variation between analysts in their estimations of several inputs, which is compounded when the inputs are combined in the CAPM.<sup>139</sup>

70. Given these challenges, the Department conducted a CAPM analysis but relied upon only as a check on the reasonableness of its multi-stage DCF analysis.<sup>140</sup> Like the Department’s multi-stage DCF modeling, the Department estimated the required market return ( $k_m - r_f$ ) assuming dividends grow at a rate equal to equity analysts’ 3-5 year earnings growth rates for the S&P 500 as a whole, and then transition to long-term GDP growth over 10- and 20-year transition periods.<sup>141</sup> The Department’s surrebuttal CAPM results are shown below:

**Summary of CAPM Results<sup>142</sup>**

	Risk-free Rate	Beta	Required Market Return	NSPM Required Return	NSPM Required Return w/ Flotation Costs
	[1]	[2]	[3]	[4]	[5]
<i>Required Market Return Estimates with 10-Year Growth Transition Period</i>					
Mean GDP Growth	4.63%	0.60	7.12%	6.12%	6.20%
Low GDP Growth	4.63%	0.60	6.59%	5.80%	5.88%
High GDP Growth	4.63%	0.60	7.99%	6.64%	6.72%
<i>Required Market Return Estimates with 20-Year Growth Transition Period</i>					
Mean GDP Growth	4.63%	0.60	8.52%	6.96%	7.04%
Low GDP Growth	4.63%	0.60	8.12%	6.72%	6.80%
High GDP Growth	4.63%	0.60	9.21%	7.37%	7.45%

*Nat. Gas Co., a Div. of Montana-Dakota Utils., Co., for Auth. to Increase Nat. Gas Rates in Minn.*, MPUC Docket No. G-004/GR-19-511, FINDINGS OF FACT, CONCLUSIONS, & ORDER at 17 (Oct. 26, 2020) (eDocket No. [202010-167656-01](#)).

<sup>138</sup> *In re Minn. Energy Res. Corp.’s Appl. for Auth. To Increase Nat. Gas Serv. Rates in Minn.*, Docket No. G-011/GR-17-563, FINDINGS OF FACT, CONCLUSIONS, & ORDER at 25 (Dec. 26, 2018) (eDocket no. [201812-148702-01](#)); *In re Pet. by Great Plains Nat. Gas Co., a Div. of Montana-Dakota Utils., Co., for Auth. to Increase Nat. Gas Rates in Minn.*, MPUC Docket No. G-004/GR-19-511, FINDINGS OF FACT, CONCLUSIONS, & ORDER at 17 (Oct. 26, 2020) (eDocket No. [202010-167656-01](#)).

<sup>139</sup> Ex. DOC-12 at 30 (Addonizio Direct).

<sup>140</sup> Ex. DOC-12 at 44 (Addonizio Direct).

<sup>141</sup> Ex. DOC-12 at 61 (Addonizio Direct).

<sup>142</sup> Ex. DOC-13 at 6 (Addonizio Surrebuttal).

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71. Xcel also conducted a CAPM analysis to estimate the company's cost of equity using various risk-free rates: (1) the current 30-day average yield on 30-year U.S. Treasury bonds (4.07%); (2) the projected 30-year U.S. Treasury bond yield for Q1 2025 through Q1 2026 (4.02%); and (3) the projected 30-year U.S. Treasury bond yield for 2026 through 2030 (4.30%). For the required market return, Xcel used a constant growth DCF model to estimate the market capitalization-weighted total market return for the S&P 500 Index, using projected earnings growth rates and dividend yields. Xcel's rebuttal CAPM results are shown below.<sup>143</sup>

	Average		Median
CAPM	11.21%		11.12%

72. The Department and Xcel each asserted that the other's CAPM analyses suffered from various flaws. In general, the Department asserted that Xcel's CAPM analyses suffered from two deficiencies: the use of forecasted treasury bond yields as the risk-free rate; and unreasonably high estimated growth rates. Xcel, in turn, disagreed with the Department's use of 20-year treasury bond yields as the risk-free rate and the use of a multi-stage DCF to derive the required market return.

73. The Department first objected to Xcel's use of forecasted yields on U.S. Treasury bonds as the risk-free rate. The Department explained that long-term interest rates, including yields on Treasury bonds, are determined by market forces, and therefore current rates on long-term Treasuries reflect investor expectations of future economic and financial conditions. Because current, actual bond yields reflect investor expectations about the future, changes in actual bond yields occur because of unexpected changes in future expectations, which are of course difficult to predict. For this reason, the Department asserted, to estimate the risk-free rate, current, actual yields are superior to forecasted yields, which are subject to uncertainty and estimation error.<sup>144</sup>

74. The Department also asserted that the source of Xcel's forecasted bond yields, Blue Chip, recommended using caution in relying on them because "Few economic, demographic and political forces can be evaluated accurately over such long time spans."<sup>145</sup> The Department also pointed to a 2017 study by the San Francisco federal reserve bank that found Blue Chip's forecasts are generally worse than a simple assumption that interest rates will not change from their current levels.<sup>146</sup>

75. The Department also raised concerns with the unreasonably high estimated growth rates incorporated into Xcel's required market return. Here, Xcel estimated dividend growth rates of 13.35% and 9.75% in perpetuity, or roughly double the high GDP

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<sup>143</sup> Ex. Xcel-25 at 12 (Nowak Rebuttal).

<sup>144</sup> Ex. DOC-12 at 92–93 (Addonizio Direct).

<sup>145</sup> Ex. DOC-12 at 93 (Addonizio Direct).

<sup>146</sup> Ex. DOC-12 at 93 (Addonizio Direct).

growth forecasts from the Energy Information Administration and the Social Security Administration and significantly higher than all independent estimates.<sup>147</sup> Given the gap between GDP forecasts, independent estimates, and Xcel's estimate, the Department concluded that Xcel's estimates of the cost of equity are too far removed from mainstream estimates to be credible.<sup>148</sup>

76. In response to the Department, Xcel asserted that using forecasted bond yields is appropriate because the purpose of the exercise is to determine what investors require in future returns to invest in a particular company. As a result, the use of forecasts—rather than what historically has happened in the market—reflects investor expectations and is an appropriate basis for cost of capital estimation. Moreover, Xcel noted that Blue Chip's forecasts for Q4 2025-Q4 2026 of 4.66% for the 30-year U.S. Treasury bond was actually lower than the current actual 30-day average of the 30-year yields of 4.88%, as of August 31, 2025.<sup>149</sup>

77. Addressing the Department's concerns about unreasonably high estimated growth rates, Xcel asserted that its methodology was consistent with the methodology used by Federal Energy Regulatory Commission in Opinion No. 531-B and subsequent orders. Xcel also asserted that its estimates were consistent with the returns earned by large companies between 1926 and 2024.<sup>150</sup> The Department, however, asserted Xcel's comparison of its estimates of the required market return to historical returns is contrary to multiple assertions that estimates of the cost of capital need to be forward-looking.<sup>151</sup>

78. Turning to Xcel's concerns with the Department's CAPM analysis, the company first objected to the Department's use of 20-year Treasury bond yields as the risk-free rate.<sup>152</sup> Xcel asserted that because equity is perpetual in nature that longest possible yield should be used as the risk-free rate. In this case, that would mean using a 30-year treasury and not a 20-year one.<sup>153</sup>

79. Xcel also renewed its criticism of the Department's usage of a multi-stage DCF analysis, here, to derive the required market return for its CAPM analysis. Xcel asserted that the Department has erroneously conflated long-term GDP growth with market estimates for long-term earnings growth, resulting in an underestimation of both the market return and the required return for Xcel.<sup>154</sup>

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<sup>147</sup> Ex. DOC-12 at 95-96 (Addonizio Direct).

<sup>148</sup> Ex. DOC-12 at 96 (Addonizio Direct).

<sup>149</sup> Ex. Xcel-25 at 33-34 (Nowak Rebuttal).

<sup>150</sup> Ex. Xcel-25 at 34-35 (Nowak Rebuttal).

<sup>151</sup> Ex. DOC-13 at 25 (Addonizio Surrebuttal); Ex. Xcel-25 at 33, 45, 52, 59, 61, 82 (Nowak Rebuttal).

<sup>152</sup> Ex. Xcel-25 at 33 (Nowak Rebuttal).

<sup>153</sup> Ex. Xcel-25 at 33 (Nowak Rebuttal).

<sup>154</sup> Ex. Xcel-25 at 36-37 (Nowak Rebuttal).

80. The Department responded to both criticisms. As to the use of 20-year Treasury bond yields, the Department noted that yields on 20-year and 30-year Treasury bonds are essentially equal right now, rendering the difference moot.<sup>155</sup> As to the use of long-term GDP growth as an estimate for long-term earnings growth, the Department asserted that the use of measures of aggregate economic growth as caps on long-term growth in DCF analyses is commonplace, and research supports the notion that total dividends and corporate profits track GDP growth over time. The same logic that applies to individual companies applies even more easily to S&P 500 as a whole, as the S&P 500 represents a large portion of the economy as a whole; a large portion of the economy cannot grow faster than economy as a whole in perpetuity.<sup>156</sup>

81. On this record, the Judge finds the Department's CAPM analysis reasonable because it applies conservative, theoretically grounded assumptions and avoids speculative inputs that introduce unnecessary uncertainty. The Department's methodology uses actual yields on long-term treasury bonds as the risk-free rate, reflecting market-based expectations rather than forecasted values that are prone to error. This approach aligns with sound financial principles and empirical evidence that current market rates incorporate investor expectations about future conditions. In contrast, forecasted rates often underperform even simple assumptions of rate stability. By coupling actual yields with a multi-stage estimate of the market return—transitioning from near-term analyst growth rates to long-term GDP growth—the Department's CAPM analysis ensures consistency with sustainable economic limits. This methodology produces results that are both credible and forward-looking, serving as a reliable check on the Department's primary DCF analysis.

82. In contrast, the Judge finds Xcel's CAPM analysis flawed because it relies on forecasted treasury yields and implausibly high growth assumptions, both of which undermine the credibility of its cost of equity estimates. Forecasted bond yields, as Xcel employs, are inherently uncertain and subject to estimation error, a fact acknowledged even by Blue Chip, the source of Xcel's projections. Moreover, Xcel's estimated perpetual dividend growth rates, ranging from 9.75% to 13.35%, are not only far above consensus GDP forecasts but also exceed all independent estimates of long-term market growth. These assumptions result in market return estimates that are disconnected from economic reality and inconsistent with investor expectations for a regulated utility. Consequently, Xcel's CAPM results are too speculative to serve as a reliable basis for determining the company's cost of equity.

83. The Judge further finds that the Department's CAPM approach is consistent with established regulatory principles and prior Commission guidance. While the Commission has acknowledged the inherent subjectivity of CAPM inputs, it has also recognized the model's usefulness as a corroborative tool when applied with conservative assumptions. The Department's methodology, using actual treasury yields and constraining long-term growth to economy-wide measures, reflects this guidance by

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<sup>155</sup> Ex. DOC-13 at 24 (Addonizio Surrebutal).

<sup>156</sup> Ex. DOC-13 at 25 (Addonizio Surrebutal).

minimizing speculative elements and aligning with practices commonly endorsed in rate cases. By contrast, Xcel's reliance on forecasted bond yields and perpetual growth rates far exceeding GDP introduces volatility and estimation risk that the Commission has cautioned against.

**iii. Bond Yield Plus Risk Premium**

84. In addition to DCF and CAPM analyses, Xcel also performed a Bond Yield Plus Risk Premium ("Risk Premium") analysis. According to Xcel, this approach recognizes that equity is riskier than debt because equity investors bear the residual risk associated with ownership. Equity investors, therefore, require a greater return (i.e., a premium) than would a bondholder. The Risk Premium approach estimates the cost of equity as the sum of the Equity Risk Premium and the yield on a particular class of bonds:

$$\text{ROE} = \text{RP} + \text{Y}$$

Where:

RP = Risk Premium (difference between allowed ROE and the 30-Year Treasury Yield); and  
Y = Applicable bond yield.<sup>157</sup>

85. To estimate the relationship between risk premium and interest rates, Xcel then conducted a regression analysis using the following equation:

$$\text{RP} = a + (b \times \text{Y})$$

Where:

RP = Risk Premium (difference between allowed ROEs and the 30- Year Treasury Yield);  
a = Intercept term;  
b = Slope term; and  
Y = 30-Year Treasury Yield.<sup>158</sup>

86. To conduct the analysis, Xcel used data on allowed ROEs from 757 vertically integrated electric utility company rate cases from 1992 through 2024. To apply this resulting relationship here, Xcel considered forecasted bond yields from Blue Chip, producing the following results.<sup>159</sup>

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<sup>157</sup> Ex. Xcel-24 at 47 (Nowak Direct).

<sup>158</sup> Ex. Xcel-24 at 47–48 (Nowak Direct).

<sup>159</sup> Ex. Xcel-24 at 48–49 (Nowak Direct).

### Risk Premium Results Using 30-Year Treasury Yield

	30-Day Average Yield on 30-Year Treasury Bond	Q1 2025–Q1 2026 Forecast for Yield on 30-Year Treasury Bond	2026-2030 Forecast for Yield 30-Year Treasury Bond
Yield	4.07%	4.02%	4.30%
Risk Premium	6.29%	6.32%	6.16%
Resulting ROE	10.36%	10.34%	10.46%

87. The Department did not perform a Risk Premium analysis. Instead, the Department asserted that the methodology was not a sound approach for estimating Xcel’s cost of equity. The Department explained that because authorized ROEs across the country have, on average, been greater than the cost of equity for many years, Xcel’s calculations do not reflect premiums demanded by investors to buy utility stocks versus investments of comparable risk. Instead, they are “allowed return premiums”—the difference between allowed ROEs set by utility commissions and prevailing interest rates—and not indicative of investor behavior.<sup>160</sup> The Department further asserted the fact that Xcel’s estimates of the cost of equity for electric utilities derived from this analysis greatly exceed nearly all of the independent estimates of the cost of equity for an “average” company was evidence that Xcel’s analysis is highly flawed.<sup>161</sup>

88. The Department caveated its criticism by conceding that Xcel’s Risk Premium results could have analytical value as a model of regulator behavior. If used this way, Xcel’s Risk Premium analysis predicts the allowed ROE an average regulatory commission will approve, given a particular level of prevailing interest rates. Thus, if the Commission wishes to reflect historical, “mainstream” thinking in its final allowed ROE decision, Xcel’s Risk Premium model, estimated with a current measure of interest rates, may provide a reasonable guide.<sup>162</sup> The Commission also has raised concerns with Risk Premium analysis, considering it prone to producing volatile and unreliable outcomes.<sup>163</sup>

<sup>160</sup> Ex. DOC-12 at 96–97 (Addonizio Direct).

<sup>161</sup> Ex. DOC-12 at 97 (Addonizio Direct).

<sup>162</sup> Ex. DOC-12 at 97 (Addonizio Direct).

<sup>163</sup> *In re Appl. of CenterPoint Energy Resources Corp. for Auth. to Increase Natural Gas Rates in Minnesota*, MPUC Docket No. G-008/GR-15-424, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 38 (June 3, 2016) (eDocket no. [20166-121975-01](#)) (2015 CPE Rate Case Order).

89. In response to the Department, Xcel asserted that Risk Premium provides another useful perspective on investors' required return. Xcel stated regulatory commissions consider the same type of market-based data and analyses presented in this proceeding. In other words, authorized ROEs reflect the market data and analyses relied on by commissions in those proceedings. Further, investors are informed by allowed ROEs from hundreds of rate case decisions to frame their return expectations.<sup>164</sup>

90. The Judge finds that Xcel's Risk Premium analysis does not provide a reasonable basis for estimating Xcel's cost of equity because it fails to measure investor-required returns and is not forward-looking, reflecting historical regulatory allowances. The record shows that Xcel's methodology relies on the difference between authorized ROEs and prevailing interest rates, which represents "allowed return premiums" rather than actual market-driven risk premiums demanded by equity investors. This distinction is critical because authorized ROEs have historically exceeded true cost of equity, meaning Xcel's regression-based estimates are inherently inflated and disconnected from investor behavior. While the analysis may have some value as a predictor of regulatory decisions, it does not credibly estimate the return investors require and therefore cannot serve as a sound basis for determining Xcel's cost of equity.

#### **iv. Expected Earnings Analysis**

91. Along with these other methods, Xcel used Expected Earnings analysis to estimate its cost of equity. According to Xcel, Expected Earnings analysis calculates the earnings that an investor expects to receive on the book value of a stock. The use of an Expected Earnings approach based on the proxy companies provides a range of the expected returns on a group of risk-comparable companies to the subject company. Xcel asserts this range is useful in helping to determine the opportunity cost of investing in the subject company, which is relevant in determining a company's ROE.

92. To conduct its Expected Earnings analysis, Xcel relied on the projected ROE for the proxy companies as reported by Value Line for the period from 2027 to 2029. Xcel then adjusted those projected ROEs to account for the fact that the ROEs reported by Value Line are calculated on the basis of common shares outstanding at the end of the period rather than average shares outstanding over the entire period. Applying this approach, Xcel's analysis produced the following results:<sup>165</sup>

#### **Expected Earnings Results excluding Flotation Costs**

	<b>ROE</b>
Proxy Group Average	10.71%
Proxy Group Median	10.12%

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<sup>164</sup> Ex. Xcel-24 at 40 (Nowak Direct).

<sup>165</sup> Ex. Xcel-24 at 50–51 (Nowak Direct).

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93. The Department did not perform an Expected Earnings analysis. Instead, the Department asserted that the methodology, like the Risk Premium model, was not a sound approach for estimating Xcel's cost of equity. The Department asserted that model was inappropriate because it relied on the book value of each proxy company's equity even though investors may only buy equity for market value. As a result, Xcel's expected earnings analysis in no way represents the returns investors would expect to earn from equity investments in its proxy companies.<sup>166</sup> The Department also pointed out that FERC has rejected the use of the expected earnings methodology for this reason, and found that relying on the Expected Earnings model would not satisfy the requirements of *Hope*.<sup>167</sup>

94. In prior proceedings, moreover, the Commission has given "little weight" to the Expected Earnings methodology, concluding it "is an accounting-based methodology, not a market-based one. It estimates a rate of return on the book value of a company's equity. However, investors cannot purchase shares of common stock at their book value. Investors must pay the current market value for shares."<sup>168</sup>

95. In response, Xcel asserts that the *Hope* and *Bluefield* standards establish that a utility should be granted the opportunity to earn a return that matches the return on other investments of similar risk. And the authorized ROE that is established in this case will be applied to the net book value of Xcel's authorized rate base. As a result, Xcel states the Expected Earnings approach provides valuable insight into the opportunity cost of investing in NSPM's electric utility operations.<sup>169</sup>

96. The Judge finds that Xcel's Expected Earnings analysis does not provide a reasonable basis for estimating Xcel's cost of equity because it is an accounting-based methodology that fails to reflect market realities. The record shows that the model calculates returns on the book value of equity, even though investors purchase shares at market value, not book value. As a result, Xcel's analysis does not represent the returns investors would expect to earn from actual equity investments and therefore cannot credibly inform the opportunity cost of capital. This flaw has led both FERC and the Commission in prior proceedings to reject or give little weight to the Expected Earnings approach, recognizing that it does not satisfy the market-based standards required under *Hope*. Xcel's reliance on projected ROEs for proxy companies does not cure this defect,

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<sup>166</sup> Ex. DOC-12 at 98 (Addonizio Direct).

<sup>167</sup> Ex. DOC-12 at 99 (Addonizio Direct); Opinion No. 569, *Ass'n of Bus. Advocating Tariff Equity v. Midcontinent Indep. Sys. Operator, Inc. v. ALLETE, Inc.*, 169 F.E.R.C. ¶ 61,129 (2019) at ¶ 61,330.

<sup>168</sup> *In re Pet. by Great Plains Natural Gas Co. for Auth, to Increase Nat. Gas Rates in Minn.*, Docket No. G-004/GR-19-511, FINDINGS OF FACT, CONCLUSIONS, & ORDER at 17 (Oct. 17, 2020) (eDocket no. [202010-167656-01](#)) (adopting <sup>168</sup> *In re Pet. by Great Plains Natural Gas Co. for Auth, to Increase Nat. Gas Rates in Minn.*, Docket No. G-004/GR-19-511, FINDINGS OF FACT, CONCLUSION OF LAW, & RECOMMENDATION ¶ 268 (June 30, 2020) (eDocket no. [20206-164438-01](#))).

<sup>169</sup> Ex. Xcel-25 at 43–44 (Nowak Rebuttal).

as those projections remain tied to book value rather than market value. Accordingly, the Expected Earnings methodology is fundamentally inconsistent with investor behavior and does not provide a sound basis for determining Xcel's cost of equity here.

**iv. Independent Equity Estimates**

97. Aside from its DCF and CAPM analyses, the Department also considered independent cost of equity estimates as a check on the reasonableness of its analysis.<sup>170</sup> According to the Department, considering these independent estimates is useful to ensure that cost of equity estimates produced solely for the purpose of a rate case are not significantly outside the range of "mainstream" thinking about the cost of capital, which should give analysts and ultimate decision makers in rate cases more confidence in their decisions.<sup>171</sup>

98. The Department first considered reports about Xcel Energy, Inc. produced by various equity research firms, two of which routinely include estimates of Xcel Energy, Inc.'s cost of equity: Morningstar assumed Xcel Energy, Inc.'s cost of equity to be **[NOT PUBLIC DATA BEGINS ... █████ ... NOT PUBLIC DATA ENDS]** and Wells Fargo assumed it to be **[NOT PUBLIC DATA BEGINS ... █████ ... NOT PUBLIC DATA ENDS]**.<sup>172</sup>

99. The Department also considered estimates from well-known surveys, including a quarterly survey of over 300 financial executives led by the Federal Reserve Bank of Richmond, and an annual survey conducted by Dr. Pablo Fernandez of the IESE Business School in Spain, and an estimate produced by Dr. Aswath Damodaran of New York University used by FactSet.<sup>173</sup>

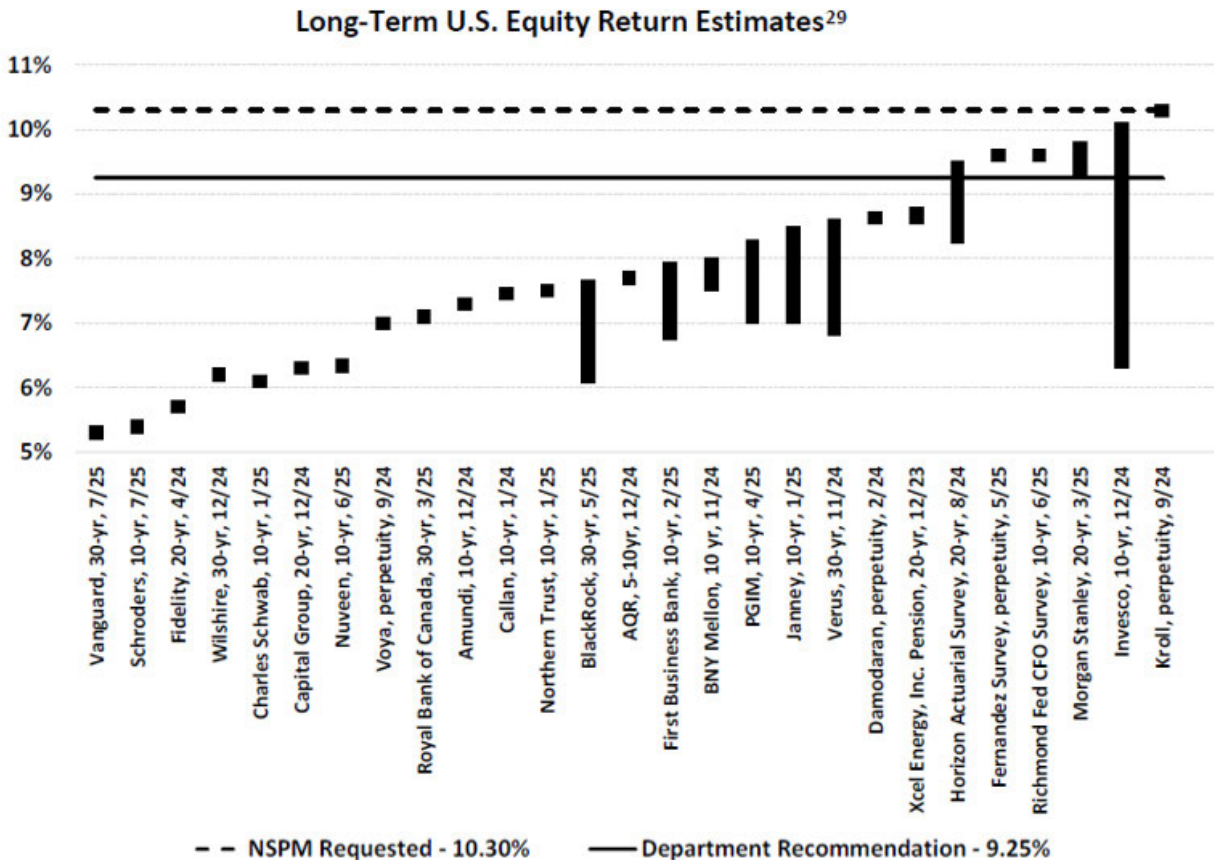
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<sup>170</sup> Ex. DOC-12 at 65 (Addonizio Direct).

<sup>171</sup> Ex. DOC-12 at 66 (Addonizio Direct).

<sup>172</sup> Ex. DOC-12 at 67 (Addonizio Direct).

<sup>173</sup> Ex. DOC-12 at 67–69 (Addonizio Direct).



100. In reviewing these independent estimates, the Department noted these estimates are for U.S. equities broadly and are not specific to utility stocks. Utility stocks are generally considered less risky than average, thus, these estimates likely overstate expected returns for utility stocks.<sup>174</sup>

101. The Department also considered the cost of equity estimate that Xcel itself uses in its pension expense calculations. In those calculations, Xcel assumes that the cost of equity for an “average” publicly traded company in the United States ranges from 8.53% to 8.79%. According to the Department, it is hard to square these estimates with Xcel’s request for a 10.30% allowed rate of return on equity. It is unlikely that a regulated electric utility, especially one of average risk, would have a cost of equity that is 1.5 to 1.8% points higher than an average publicly traded company.<sup>175</sup>

102. Given that these independent estimates resembled the Department’s multi-stage DCF and CAPM results, the Department asserted that they confirmed the reasonableness of its DCF and CAPM estimates, and perhaps indicating its DCF results may be slightly high.<sup>176</sup>

<sup>174</sup> Ex. DOC-12 at 69–70 (Addonizio Direct).

<sup>175</sup> Ex. DOC-12 at 70 (Addonizio Direct).

<sup>176</sup> Ex. DOC-12 at 69–70 (Addonizio Direct).

103. The Judge finds that the Department’s review of independent cost of equity estimates confirms the reasonableness of its DCF and CAPM analyses. The record shows that the Department examined estimates from equity research firms, academic surveys, and market-based sources, as well as Xcel’s own assumptions for pension expense calculations. These independent estimates, which generally apply to U.S. equities broadly and therefore likely overstate returns for lower-risk utility stocks, were nonetheless comparable to the Department’s multi-stage DCF and CAPM results. This consistency demonstrates that the Department’s estimates fall within the range of mainstream expectations for cost of equity and provides an important check against values produced solely for litigation purposes. By contrast, Xcel’s requested ROE of 10.30% is difficult to reconcile with these independent benchmarks, underscoring the credibility of the Department’s approach.

**v. Cost of Equity v. Authorized ROE**

104. A final dispute between the Department and Xcel is whether authorized ROEs generally exceed the cost of equity. According to the Department, the cost of equity is not synonymous with ROE, citing empirical evidence suggests allowed ROEs typically exceed the cost of equity.<sup>177</sup>

105. The Department explained that other state regulators have noted the same discrepancy. In 2025, the Utah commission concluded “that utility-authorized ROEs between 1980 and 2022 consistently overstated the actual cost of equity capital.”<sup>178</sup> In 2023, the Connecticut commission attributed this discrepancy to regulators not reflecting declining interest rates in authorized ROEs between 1990 and 2020.<sup>179</sup> In another 2023 case, the Connecticut commission again drew similar conclusions noting that “authorized ROEs have not declined in line with capital costs over the past several decades and past ROEs have overstated the actual cost of equity.”<sup>180</sup> In 2021, the New Mexico commission likewise noted “that over the past 30 years, interest rates and cost of capital have declined at a faster rate than regulators’ willingness to decrease awarded ROEs.”<sup>181</sup> And as a result, authorized ROEs have been higher than actual utility costs of equity.<sup>182</sup>

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<sup>177</sup> Ex. DOC-12 at 70–71 (Addonizio Direct).

<sup>178</sup> *In re Appl. of Rocky Mountain Power for Auth. to Increase its Retail Elec. Util. Serv. Rates in Utah*, No. 23-035-40, 2025 WL 1309681, at \*20 (UT Pub. Serv. Comm’n Apr. 25, 2025)

<sup>179</sup> *In re Appl. of the United Illuminating Co. to Amend Its Rate Sch.*, No. 22-08-08, 2023 WL 7409235, at \*90 (Ct. Pub. Util. Reg. Auth. Aug. 25, 2023)

<sup>180</sup> *In re Appl. of Aquarion Water Co. of Connecticut to Amend Its Rate Sch.*, No. 22-07-01, 2023 WL 2583552, at \*42 (Ct. Pub. Util. Reg. Auth. Mar. 15, 2023).

<sup>181</sup> *In re Appl. of El Paso Elec. Co. for Revision of Its Retail Elec. Rates Pursuant to Advice Notice No. 267*, No. 20-00104-UT, 2021 WL 1550586, at \*1 (N.M. Pub. Reg. Comm’n Apr. 6, 2021).

<sup>182</sup> *In re Appl. of El Paso Elec. Co. for Revision of Its Retail Elec. Rates Pursuant to Advice Notice No. 267*, No. 20-00104-UT, 2021 WL 1550586, at \*1 (N.M. Pub. Reg. Comm’n Apr. 6, 2021).

106. Despite this discrepancy, the Department explained there are strong theoretical reasons to set the allowed ROE equal to the cost of equity. In general, competition in the capital markets should drive the expected return on any stock to its cost of equity. If investors, on average, think the expected return on a stock is greater than the cost of equity, they will buy the stock, driving the price up (and therefore the expected return down) to the point that the expected return equals the cost of equity. But if investors, on average, think the expected return on a stock is lower than the cost of equity, owners of the stock will start to sell it, driving the price down until the expected return increases to the cost of equity. Because stock prices adjust such that the expected return is always equal to the cost of equity, new, incremental investors should only ever expect their investments to earn the cost of equity.<sup>183</sup>

107. Given that investors should only ever expect their investments to earn the cost of equity, the Department asserted, if the allowed ROE were to be set at the cost of equity the utility should theoretically be assured of an adequate supply of capital to make necessary investments, it will have no incentive to pursue unnecessary investments, and ratepayers should receive safe and reliable service at the lowest possible cost.<sup>184</sup>

108. Even though it would be appropriate to set the allowed ROE at the cost of equity, the Department found that regulators rarely did so, citing data that utility market values tended to exceed book values. The Department explained the book value of a company's equity is equal to the value of all its assets as recorded on its balance sheet, minus the value of all its liabilities. For a utility, most of its assets are its utility plant in service (which gets recorded at original cost), and most of its liabilities are the accumulated depreciation on its plant in service and its outstanding debt. And when a utility is allowed to earn more than its cost of equity, the market value of its equity exceeds its book value; the ratio of its market value to its book value is greater than one.<sup>185</sup>

109. As an example of this phenomenon, the Department pointed out that its proxy group's average market-to-book ratio was 1.96 as of July 2025. The Department explained that this ratio was close to the proxy group's 20-year average which ranged from 1.44 to 2.22.<sup>186</sup>

110. Xcel disputed the Department's contention that authorized ROEs have been higher than the actual cost of equity. According to Xcel, there numerous reasons as to why a company's (utility or otherwise) M/B ratio should be greater than 1.0. According to Xcel, an M/B ratio exceeding 1.0 provides little insight into the appropriate level of authorized returns. Book value (or book equity) is an accounting measure reflecting historical costs. Market value is forward-looking and reflects future earnings dependent upon many factors, including future cash flows. The expectation that a backward-looking

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<sup>183</sup> Ex. DOC-12 at 71 (Addonizio Direct).

<sup>184</sup> Ex. DOC-12 at 73 (Addonizio Direct).

<sup>185</sup> Ex. DOC-12 at 75 (Addonizio Direct).

<sup>186</sup> Ex. DOC-12 at 75 (Addonizio Direct).

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accounting measure should equal a forward-looking market measure is contrary to market economics. As such, it is reasonable to expect M/B ratios to exceed 1.0, not because returns are inflated, but due to investor expectations for the future value of a company to be higher than that of a historical accounting measure.<sup>187</sup>

111. In support of its position, Xcel asserted that its common for M/B ratio to be greater than 1.0 across industries, citing data showing M/B ratios for various sectors over the past three years.<sup>188</sup>

**Price-to-Book Ratio by Sector**

Sector	12/31/24	12/31/23	12/31/22
Communications	5.10	3.91	2.61
Consumer Discretionary	10.06	9.40	7.54
Consumer Staples	6.33	5.54	6.12
Energy	1.99	2.13	2.50
Financials	2.33	2.05	1.64
Health Care	4.86	4.83	5.07
Industrials	6.35	5.82	5.27
Information Technology	13.09	11.42	7.93
Materials	2.74	3.01	2.90
Real Estate	3.02	3.03	3.00
Utilities	2.22	1.93	2.21

112. Xcel contended that if the Department were correct that would mean that the market value of utilities is overvalued by nearly double due to a difference between allowed ROEs and the cost of equity. Xcel called that proposition facially implausible because it would require an outcome that would cause utility valuations to decline 49% for market values to align with book values.<sup>189</sup>

113. In response to Xcel's critique, the Department explained that for non-utilities that there are some legitimate, accounting-based reasons to believe that book equity may be understated, resulting in a market-to-book ratios greater than one. For example, accounting rules require internally generated research and development (R&D) costs to be expensed in the year that they are incurred. When those costs are expensed, no equity associated with those costs is recorded on the company's balance sheet. Many equity analysts, however, believe that because those R&D efforts will eventually result in new products or services that generate profits in the future, at least a portion of their costs should be treated more like long-term investments in plant or equipment. That is to say, a portion of those R&D costs should be recorded as an asset on the company's balance

<sup>187</sup> Ex. Xcel-25 at 45 (Nowak Rebuttal).

<sup>188</sup> Ex. Xcel-25 at 46–47 (Nowak Rebuttal).

<sup>189</sup> Ex. Xcel-25 at 47 (Nowak Rebuttal).

sheet, rather than an expense, and create additional equity on the company's balance sheet, lowering the company's market-to-book ratio.<sup>190</sup>

114. More fundamentally, the Department asserted that in ratemaking, the authorized ROE set by regulators will be applied to the portion of the utility's rate base financed with equity, which is largely equal to the book value of the utility's equity. If it were the case that the market value of the utility's equity upon which its cost of equity was measured, is significantly higher than the book value of its equity, applying that market-derived cost of equity estimate to the utility's significantly smaller rate base will result in the utility under earning. For example, if a utility's cost of equity is determined to be 10% based on a market value of \$200, it suggests that investors require a \$20 return. But if the utility's book value were only \$100, applying that 10% cost of equity would only result in \$10—only half of the expected earnings. As a result, when a utility's M/B ratio is significantly greater than one, it is an indication that its investors expect it to earn book returns in excess of the cost of equity.<sup>191</sup>

115. The Judge finds that the distinction drawn by the Department between authorized ROEs and the actual cost of equity is reasonable and should be taken into consideration when setting an authorized ROE for Xcel. The record demonstrates that authorized ROEs have historically exceeded the true cost of equity, a conclusion supported by empirical evidence and echoed by multiple state commissions, including those in Utah, Connecticut, and New Mexico. This discrepancy arises because regulators have often been slow to adjust allowed returns in response to declining interest rates, resulting in authorized ROEs that overstate capital costs. The Department's explanation that competitive market forces ensure investors only expect to earn the cost of equity, not inflated authorized returns, is consistent with financial theory and reinforces the principle that setting ROE at the cost of equity will provide adequate capital without imposing unnecessary costs on ratepayers. Accordingly, the Department's position reflects sound economic reasoning and regulatory best practice, and the Commission should weigh this distinction carefully in determining Xcel's authorized ROE.

116. The Judge further finds that Xcel's critique regarding market-to-book ratios does not undermine the Department's position that authorized ROEs have historically exceeded the cost of equity. While Xcel asserts that M/B ratios greater than 1.0 are common across industries due to forward-looking investor expectations, this explanation does not account for the regulatory context in which authorized ROEs are applied to book equity. In ratemaking, the authorized ROE is earned on the utility's rate base, which closely approximates book value. When a utility's market value significantly exceeds its book value this indicates investors expect returns above the cost of equity, not merely accounting differences. The Department's analysis correctly highlights that applying a market-derived cost of equity to a much smaller book-value rate base would result in under-earning if allowed ROEs truly reflected cost of equity. Therefore, the persistent gap between market and book values strongly supports the Department's conclusion that

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<sup>190</sup> Ex. DOC-13 at 34-35 (Addonizio Surrebuttal).

<sup>191</sup> Ex. DOC-13 at 35-36 (Addonizio Surrebuttal).

authorized ROEs have been set above actual capital costs, and Xcel's argument does not negate this economic reality.

#### **D. Overall ROE Recommendation**

117. Based on their various cost of equity models and other analyses, the Department and Xcel respectively recommended that the Commission adopt ROEs of 9.25% and 10.30%, respectively. The bases for these recommendations are addressed below.

##### **1. Department Recommendation**

118. Even though it would be theoretically appropriate to set Xcel's authorized ROE at its cost of equity as discussed above, the Department concluded that it would be risky not to consider regulator behavior. The Department explained that its cost of equity estimates are only estimates and it is better to err on the side of setting allowed ROE above the cost of equity. Doing so may cause rates to be higher than absolutely necessary and incent utilities to pursue unnecessary investments. But those risks are outweighed by the risk of preventing the utilities from attracting capital necessary to provide safe and reliable service or maintaining financial integrity.<sup>192</sup>

119. Balancing the desire to set Xcel's ROE closer to its cost of equity with mitigating the risks of deviating from past norms, the Department recommended the Commission adopt an ROE of 9.25%—about 40 basis points higher than the 8.82% cost of equity derived from its multi-stage DCF analysis.<sup>193</sup> In developing this final recommendation, the Department reviewed recent ROE determinations in fully litigated rate cases and compared them to the trend of estimates of the Department's proxy group's average cost of equity over time, as determined by the application of its multi-stage DCF, and yields on the 30-year Treasury bond.<sup>194</sup>

120. The Department reasoned that maintaining Xcel's existing ROE of 9.25% was reasonable because it would be above Xcel's cost of equity and below the average, but generally within the range of ROEs recently authorized in other jurisdictions. It would maintain Xcel's existing ROE of 9.25%.<sup>195</sup> The Department acknowledged this recommendation is on the low end of recent allowed ROEs for other electric utilities, but noted that it is comfortably above Xcel's estimated cost of equity, including flotation costs (8.82%).<sup>196</sup> In addition, the Department pointed out that neither allowed ROEs nor the average cost of equity of the DOC Proxy Group show any meaningful upward trend over the last year, indicating that an increase from the current authorized ROE is not warranted.<sup>197</sup> The Department also cited Xcel's representations that the Company was

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<sup>192</sup> Ex. DOC-12 at 80-81 (Addonizio Direct).

<sup>193</sup> Ex. DOC-12 at 85 (Addonizio Direct).

<sup>194</sup> Ex. DOC-12 at 84 (Addonizio Direct).

<sup>195</sup> Ex. DOC-12 at 85 (Addonizio Direct).

<sup>196</sup> Ex. DOC-12 at 85 (Addonizio Direct).

<sup>197</sup> Ex. DOC-12 at 85 (Addonizio Direct).

able to issue debt at interest rates much lower than one of its sister companies with its current authorized ROE at 9.25%.<sup>198</sup> The Department also noted that Standard & Poor's even upgraded NSPM's credit rating following the Commission's decision to set NSPM's authorized ROE at 9.25% in the Company's prior rate case. Thus, the Department concluded that an authorized ROE of 9.25% does not appear to have hindered the Company's ability to raise capital at a reasonable cost.<sup>199</sup>

## **2. Xcel Recommendation**

121. In contrast to the Department, Xcel concluded that a 10.30% ROE was appropriate in this case. Xcel explained that its DCF, CAPM, and Bond Yield Risk Premium analysis produce a range of estimates of the Company's cost of equity of 10.34% to 11.92%, before considering the effect of flotation costs (an incremental 7 basis points). Based on these analyses, Xcel asserted that an ROE range of 10.00% to 11.00% was reasonable and somewhat conservative. Based on that range, Xcel recommended the Commission adopt an ROE of 10.3%, which is below the midpoint of its range and 54 basis points below the average of the DCF, CAPM, and Risk Premium analyses.<sup>200</sup>

## **3. ALJ Recommendation.**

122. The Judge concludes that the Department's recommended ROE of 9.25% is reasonable because it is firmly grounded in sound financial theory, empirical evidence, and regulatory precedent. The Department's multi-stage DCF analysis, supported by its CAPM results and corroborated by independent cost of equity estimates, provides a conservative and credible estimate of Xcel's cost of equity. This recommendation balances the need to provide Xcel with sufficient earnings to maintain financial integrity and attract capital while avoiding unnecessary costs for ratepayers. The Department's approach also reflects the Commission's prior guidance that ROE determinations should be based on a range of reasonable estimates rather than a single model, and its recommendation falls squarely within that range.

123. In contrast, Xcel's proposed ROE of 10.30% is not supported by the record and would result in unjust and unreasonable rates. Xcel's analyses rely on flawed assumptions, including perpetual growth rates far exceeding GDP, forecasted bond yields prone to error, and methodologies such as Risk Premium and Expected Earnings that fail to measure investor-required returns. These approaches produce inflated cost of equity estimates that are inconsistent with economic reality and investor expectations for a regulated utility of average risk. Adopting Xcel's recommendation would impose unnecessary costs on ratepayers without any demonstrated benefit to Xcel's ability to

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<sup>198</sup> Ex. DOC-12 at 85 (Addonizio Direct).

<sup>199</sup> Ex. DOC-12 at 85 (Addonizio Direct).

<sup>200</sup> Ex. Xcel-24 at 63-64 (Nowak Direct); Ex. Xcel-25 at 6-7 (Nowak Rebuttal).

attract capital, particularly given evidence that Xcel has successfully raised funds and even improved its credit rating under its current 9.25% ROE.

124. Finally, the Judge finds that maintaining the current ROE of 9.25% appropriately balances competing interests and aligns with recent Commission decisions and industry trends. The Department explained that its recommendation is above Xcel’s estimated cost of equity, including flotation costs, and within the range of ROEs authorized for other electric utilities in recent cases. There is no evidence of upward pressure on allowed ROEs or cost of equity estimates that would justify an increase. Moreover, the Department’s recommendation mitigates the risk of overcompensation while ensuring Xcel can continue to provide safe and reliable service at reasonable rates. For these reasons, the Commission should adopt the Department’s recommended ROE of 9.25% and reject Xcel’s proposed 10.30% ROE as unsupported and excessive.

**E. Overall Cost of Capital Recommendation**

125. Applying the agreed-upon capital structure and long- and short-term costs of debts, along with the return on equity recommended above, produces a weighted average cost of capital as shown below:<sup>201</sup>

	Proposed Capital Structure	Proposed Cost	Weighted Average Rate of Return
	[1]	[2]	[3]=[1]x[2]
<u>2025 Test Year</u>			
Long-term Debt	46.71%	4.51%	2.11%
Short-term Debt	0.79%	5.31%	0.04%
Common Stock Equity	52.50%	9.25%	4.86%
Total	100.00%		7.01%
<u>2026 Plan Year</u>			
Long-term Debt	46.50%	4.53%	2.11%
Short-term Debt	1.00%	3.38%	0.03%
Common Stock Equity	52.50%	9.25%	4.86%
Total	100.00%		7.00%

**III. REVENUE, EXPENSES, AND RATE BASE ITEMS—CONTESTED ISSUES**

**A. Insurance Expense.**

<sup>201</sup> Ex. DOC-13 at 43 (Addonizio Surrebuttal).

126. The parties agree that Xcel is entitled to recover a fair and reasonable amount of insurance premium expense. The disputed issue is how to forecast that expense.

127. 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.”<sup>202</sup>

### 1. Xcel’s Recommendation

128. The company estimated its insurance premium expense at the Minnesota Electric Jurisdiction was \$34.2 million for 2025 and \$37.6 million for 2026.<sup>203</sup> Xcel estimates the 2025 MN Electric Jurisdiction insurance premium expense will [TRADE SECRET DATA BEGINS . . . ██████████ . . . TRADE SECRET DATA ENDS] compared to its 2024 actual expense, and will [TRADE SECRET DATA BEGINS . . . ██████████ . . . TRADE SECRET DATA ENDS] for the 2026 plan year. These amounts are net of budgeted distributions from mutual insurance and captive insurance providers.<sup>204</sup> The amounts do not include the costs associated with workers’ compensation coverage.<sup>205</sup>

129. Xcel explained that insurance costs are impacted by the insurance market conditions and the company’s exposure metrics, which 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. Xcel then evaluates its exposure metrics, such as number of employees, miles of pipes and wires, and changes to the value of insurable assets.<sup>206</sup>

130. Xcel’s test year insurance budget is generally based on insurance premiums paid in the prior two years, which are then adjusted based on the company’s analysis of general trends.<sup>207</sup> The budget also incorporates expected distributions from

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<sup>202</sup> NOTICE AND ORDER FOR HEARING at 3–4 (Dec. 30, 2024) (eDocket No. [202412-213391-01](#)).

<sup>203</sup> Ex. Xcel-55 at 19 (Miller Direct).

<sup>204</sup> Ex. Xcel-55 at 19 (Miller Direct).

<sup>205</sup> Ex. Xcel-55 at 19 (Miller Direct).

<sup>206</sup> Ex. Xcel-55 at 20 (Miller Direct).

<sup>207</sup> Ex. Xcel-55 at 20 (Miller Direct).

its participation in mutual insurance pools and captive insurance.<sup>208</sup> These distributions fluctuate greatly from year to year.<sup>209</sup>

131. Xcel's primary explanation for the cause of the substantial increases was that "insurance premiums are generally trending up due to a continuing 'hardening' of the insurance market, especially in the conventional property and excess liability areas."<sup>210</sup> Xcel explained that "[a] hardening market means that insurance capacity is reducing, which allows for insurance companies to increase premiums."<sup>211</sup>

132. Xcel's forecast for excess liability insurance premiums anticipates an increase of 230% in 2025 and an additional 113% in 2026 due to "increased wildfire exposure." The main cost drivers of Xcel's excess liability premiums "are the Company's inherent risk profile, its claims history, industry wide loss experience, as well as macro-economic factors which affect the investment markets."<sup>212</sup>

## 2. The Department's Recommendation

133. The Department determined 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.<sup>213</sup>

134. 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.<sup>214</sup> The Department then applied Xcel's recommended increase to the 2025 forecast to generate the 2026 forecast.<sup>215</sup>

135. The Department advocated for using a four-year lookback period to determine the insurance premium expense.<sup>216</sup> 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% to 122.67%.<sup>217</sup> Given the significant fluctuations in insurance costs from year to year, the Department believes longer look back period is appropriate because it better captures volatility in the insurance market.<sup>218</sup>

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<sup>208</sup> Ex. Xcel-55 at 20 (Miller Direct).

<sup>209</sup> Ex. Xcel-55 at 21 (Miller Direct).

<sup>210</sup> Ex. Xcel-55 at 22 (Miller Direct).

<sup>211</sup> Ex. Xcel-55 at 22 (Miller Direct).

<sup>212</sup> Ex. Xcel-55 at 30 (Miller Direct).

<sup>213</sup> Ex. DOC-23 at 23–25 (Jones Direct).

<sup>214</sup> Ex. DOC-23 at 25 (Jones Direct).

<sup>215</sup> Ex. DOC-23 at 25–26 (Jones Direct).

<sup>216</sup> Ex. DOC-24 at 24 (Jones Surrebuttal).

<sup>217</sup> Ex. DOC-24 at 24 (Jones Surrebuttal).

<sup>218</sup> Ex. DOC-24 at 24 (Jones Surrebuttal).

### 3. ALJ Recommendation

136. Xcel has not met its burden to show that its proposed insurance premium expense is reasonable. The forecasted insurance premium expense includes significant increases in the company's excess liability premiums driven by the cost of wildfires.

137. Although Xcel asserted that none of the *direct* insurance premium expenses attributable to the Marshall Wildfire in Colorado and the 2024 Smokehouse Creek Fire Complex in Texas were assigned to the Minnesota jurisdiction, it acknowledged that “these wildfires...have changed the insurance market and raised costs for ELI coverage overall.”<sup>219</sup> The company added that its excess liability premiums are drive by “the Company’s inherent risk profile, its claims history, [and] industry wide loss experience.” Xcel has not shown that its allocation of excess liability premiums across its different jurisdictions would result in fair and just rates for Minnesota ratepayers.

138. No party has demonstrated an ability to accurately forecast Xcel’s overall insurance premium expense or its refunds and credits. The insurance premium expense authorized in the last rate case resulted in under-recovery of the company’s insurance premium expense from 2022 through 2024.<sup>220</sup> But the company’s forecast for those years was also inaccurate.<sup>221</sup> Looking back at forecast expenses compared to actual expenses since 2017, as the Commission ordered, reveals a clear pattern of over-forecasting insurance premium expense by Xcel.

139. A significant portion of the total insurance premium expense is attributable to refunds and credits, which fluctuate greatly from year to year.<sup>222</sup> As a result, annual changes in insurance premium expense have fluctuated from as little as -22.13% to as much as 122.67%.<sup>223</sup> Where costs vary from year to year, it is reasonable to set costs based on historical averages.<sup>224</sup> Given the large variation in year to year costs, the Department’s proposal to use a four-year average to set insurance premium expense increases is reasonable.

140. The Judge recommends that the Commission approve the Department’s proposed insurance premium expense.

#### B. Compensation and Benefits.

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<sup>219</sup> Ex. Xcel-56 at 30 (Miller Rebuttal).

<sup>220</sup> Ex. Xcel-56 at 8 (Miller Rebuttal).

<sup>221</sup> Ex. Xcel-56 at 8 (Miller Rebuttal).

<sup>222</sup> Ex. Xcel-55 at 21 (Miller Direct).

<sup>223</sup> Ex. DOC-24 at 24 (Jones Surrebuttal).

<sup>224</sup> Ex. DOC-24 at 25–26 (Jones Surrebuttal) (collecting cases).

## 1. Base Pay

141. Xcel proposed to recover base pay of \$367.29 million in 2025 and \$370.33 million in 2026.<sup>225</sup> Xcel calculated its base pay by using its 2024 actual base pay and administering a 3% increase for 2025 and 2026.<sup>226</sup> Xcel claimed that it calculated its base-pay using “current salary and headcount data.”<sup>227</sup>

142. The Department asserted that Xcel has not provided full-time equivalent (FTE) counts that are necessary to allow for proper evaluation of the request and have not otherwise explained discrepancies in base-pay calculations.<sup>228</sup> The Department’s position, therefore, is that Xcel has not carried its burden to justify its base-pay calculation.<sup>229</sup>

143. The Department recommended base pay amounts of \$348.16 million in 2025 and \$358.61 million in 2026.<sup>230</sup> This calculation accepts Xcel’s proposed 3% increase in each year but starts from the 2024 approved test year amount.<sup>231</sup> Alternatively, the Department recommended using Xcel’s average actual base pay from 2022 to 2024 and applying Xcel’s proposed increases of 3.8% in 2025 and 0.8% in 2026.<sup>232</sup>

144. The Department also recommended that the Commission require Xcel to include an FTE count on a Minnesota jurisdictional basis for its next rate case.<sup>233</sup> The Department asserts that this additional compliance reporting will assist external parties in their review of Xcel’s future base-pay recovery requests.

145. Xcel maintained that its initial base-pay calculation is correct and discounts the need for FTE numbers to evaluate its base-pay calculations.<sup>234</sup> Xcel asserted that it has not calculated FTE forecasts for the 2025 test year and 2026 plan year, and performing such calculations would be difficult.<sup>235</sup> This is despite the fact that Xcel has been ordered to and does use FTE count instead of headcount for its general service allocator.<sup>236</sup>

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<sup>225</sup> Ex. DOC-1 at 8, Table 1 (Kehrwald Direct).

<sup>226</sup> Ex. Xcel-62 at 12 (Ly Direct).

<sup>227</sup> Ex. Xcel-28 at 26 (Robinson Rebuttal).

<sup>228</sup> Ex. DOC-4 at 10 (Kehrwald Surrebuttal).

<sup>229</sup> Ex. DOC-4 at 14-15 (Kehrwald Surrebuttal).

<sup>230</sup> Ex. DOC-4 at 22 (Kehrwald Surrebuttal).

<sup>231</sup> Ex. DOC-4 at 22 (Kehrwald Surrebuttal).

<sup>232</sup> Ex. DOC-4 at 23 (Kehrwald Surrebuttal).

<sup>233</sup> Ex. DOC-3 at 14 (Kehrwald Direct).

<sup>234</sup> Ex. Xcel-28 at 28 (Robinson Rebuttal).

<sup>235</sup> Ex. Xcel-28 at 28-29 (Robinson Rebuttal).

<sup>236</sup> *In re Appl. of N. States Power Co. for Authority to Increase Its Rates for Elec. Serv. in the State of Minn.*, E-002/GR-21-630, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 89 (July 17, 2023) (eDocket No. [20237-197559-01](#)).

146. The Judge finds that Xcel has not met its burden to show that its base-pay calculations are reasonable. Xcel has not provided FTE counts, which are a common labor figure and are required for its general service allocator. Xcel has also not sufficiently explained fluctuations in its base pay from 2022 to 2024, nor has it sufficiently explained why its 2024 actual base pay exceeded the 2024 approved base-pay from its last rate case. The Department proposed adjustment based on Xcel's 2024 approved base pay is a reasonable compromise. The Judge recommends that the Commission adopt the Department's base pay calculation based on the 2024 approved base pay amount and apply the corresponding adjustments recommended by Department witness Kehrwald.

## 2. Long-Term Incentive Compensation

147. Xcel requested that ratepayers pay \$23.5 million during the MYRP for long-term incentive ("LTI") compensation for a limited group of Xcel's employees, including Xcel executives.<sup>237</sup> Xcel seeks to recover both time-based LTI and "environmental LTI."<sup>238</sup> Xcel's LTI is paid in a combination of restricted stock units and performance stock units.<sup>239</sup> A stated goal of the program is ensuring that employees continue to "deliver value to the company."<sup>240</sup>

148. No other utility in Minnesota is permitted to charge ratepayers for LTI compensation, and the Commission recently denied a nearly identical request from Xcel in its last rate case.<sup>241</sup> The Commission reasoned that LTI did not offer any "unique benefits" and incentivized employees to promote shareholder rather than ratepayer, interests.<sup>242</sup>

149. Xcel attempted to distinguish its environmental LTI request by arguing that Xcel's environmental goals benefit the public and necessitate "strategic leadership."<sup>243</sup> The Department responded that Xcel is already obliged to meet Minnesota's environmental goals by statute, and Xcel's environmental LTI benchmarks are no more ambitious than what is already required.<sup>244</sup>

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<sup>237</sup> Ex. DOC-3 at 16 (Kehrwald Direct). Over one-third of all LTI is budgeted for the Xcel's top-ten paid executives. *Id.*

<sup>238</sup> Ex. Xcel-62 at 23–24 (Ly Direct).

<sup>239</sup> Ex. Xcel-66, Schedule 2 at 9 (Mustich Direct).

<sup>240</sup> Ex. Xcel-66, Schedule 2 at 9 (Mustich Direct).

<sup>241</sup> *In re Appl. of N. States Power Co. for Authority to Increase Its Rates for Elec. Serv. in the State of Minn.*, E-002/GR-21-630, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 15 (July 17, 2023) (eDocket No. [20237-197559-01](#)).

<sup>242</sup> *In re Appl. of N. States Power Co. for Authority to Increase Its Rates for Elec. Serv. in the State of Minn.*, E-002/GR-21-630, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 15 (July 17, 2023) (eDocket No. [20237-197559-01](#)).

<sup>243</sup> Ex. Xcel-63 at 22 (Ly Rebuttal).

<sup>244</sup> Ex. DOC-3 at MBK-D-11 (Kehrwald Direct) (Xcel's response to DOC IR 179, part A).

150. Time-based LTI is awarded to employees for staying employed with Xcel for a certain amount of time.<sup>245</sup> Xcel's primary justification for its time-based LTI program is that it is necessary to remain competitive and retain talent.<sup>246</sup> This is the same argument Xcel presented in its last rate case, which was rejected by the Commission.<sup>247</sup>

151. The Department recommended that the Commission disallow any LTI recovery. The Department argues that Xcel's environmental LTI is no more ambitious than what is required by law and therefore provides no benefit.<sup>248</sup> The Department also argued that because all LTI is paid in stock, LTI incentivizes employees to act in shareholder interests, not ratepayer interests.<sup>249</sup>

152. The Judge agrees with the Department that the Commission's past reasoning remains valid. Xcel has not shown that its environmental LTI program provides any benefit to ratepayers beyond what is already required by state statute. And because Xcel's LTI is paid in stock, the value of that compensation is directly tied to the performance of Xcel's stock. The Commission's concern that LTI incentivizes conduct in shareholder rather than ratepayer interests, remains salient. The Judge recommends that the Commission disallow any LTI recovery.

### 3. Annual Incentive Program Compensation

153. Xcel is requesting to charge ratepayers over \$47.6 million in 2025 and 2026 for its annual incentive program ("AIP").<sup>250</sup> AIP is Xcel's short-term compensation program, which is offered only to non-union employees.<sup>251</sup> Xcel is currently permitted to recover costs for AIP, with a cap of 15% of base pay, which is administered on an individual basis.<sup>252</sup> Xcel is seeking to increase the cap from 15% to 20%, and to administer the cap on an aggregate basis, instead of individual.<sup>253</sup>

154. Since 1992, the Commission has limited Xcel's recovery for short-term incentive compensation (now called AIP) to 15% of an employee's base salary.<sup>254</sup> The

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<sup>245</sup> Ex. DOC-4, MBK-S-11 (Kehrwald Surrebuttal) (Xcel's response to DOC IR 2182).

<sup>246</sup> Ex. Xce -63 at 20-21 (Ly Rebuttal).

<sup>247</sup> *In re Appl. of N. States Power Co. for Authority to Increase Its Rates for Elec. Serv. in the State of Minn.*, E-002/GR-21-630, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 14 (July 17, 2023) (eDocket No. [20237-197559-01](#)).

<sup>248</sup> Ex. DOC-4 at 27 (Kehrwald Rebuttal).

<sup>249</sup> Ex. DOC-4 at 27 (Kehrwald Rebuttal).

<sup>250</sup> See Ex. Xcel-62 at 21 (Ly Direct).

<sup>251</sup> Ex. Xcel-62 at 21 (Ly Direct); Schedule 4 at 4 (Ly Direct).

<sup>252</sup> Ex. Xcel-62 at 18–19 (Ly Direct).

<sup>253</sup> Ex. Xcel-62 at 18–19 (Ly Direct).

<sup>254</sup> *In re Appl. of N. States Power Co. for Authority to Increase Its Rates for Elec. Serv. in the State of Minn.*, E002/GR-92-1185, FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER at 25–30 (Sept. 29, 1993) (1992 Rate Case Order) (eDocket No. [355173](#)). The Commission originally denied Xcel's incentive compensation plan in full. After reconsideration the Commission allowed some incentive plan provisions to be recovered

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Commission imposed this cap based on concerns that AIP was driven by shareholder interests. The same concerns from more than 30 years ago remain because Xcel still embeds shareholder interests in the program.<sup>255</sup>

155. In its last rate case, Xcel similarly requested a 20% cap, and to administer that cap on an aggregate basis. The Commission rejected both of these requests in the most recent rate case.<sup>256</sup>

156. The Commission's concerns with Xcel's request to increase the cap to 20% were that "Xcel's AIP program is subject to a dispositive earnings-per-share threshold such that no AIP is paid out if earnings per share do not reach the target level, regardless of any other performance metrics."<sup>257</sup> The Commission then noted that because of this requirement, Xcel's AIP program was not "sufficiently broadly beneficial to justify a higher percentage of recovery from ratepayers."<sup>258</sup>

157. Xcel has not argued that it has changed its AIP program in any material respect since its last rate case. Rather, Xcel primarily argued that it should be permitted a 20% cap because other utilities, like Minnesota Power, been permitted to recover for their AIP programs with a 20% cap.<sup>259</sup>

158. The Department argued that the Commission should maintain the 15% cap because nothing warrants modification of the cap.<sup>260</sup> The Commission has already expressly rejected this comparison because Minnesota Power does not use an EPS threshold for its AIP program.<sup>261</sup> Xcel's witness on this issue eventually admitted that she lacked any insight or understanding into how Minnesota Power structured its plan.<sup>262</sup>

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but imposed the 15% cap and required the Company to return any unpaid incentive compensation to ratepayers. See ORDER AFTER RECONSIDERATION at 7 (Jan. 14, 1994) (eDocket No. [322655](#)).

<sup>255</sup> See 1992 Rate Case Order at 28.

<sup>256</sup> *In re Appl. of N. States Power Co. for Authority to Increase Its Rates for Elec. Serv. in the State of Minn.*, E-002/GR-21-630, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 18–19 (July 17, 2023) (eDocket No. [20237-197559-01](#)).

<sup>257</sup> *In re Appl. of N. States Power Co. for Authority to Increase Its Rates for Elec. Serv. in the State of Minn.*, E-002/GR-21-630, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 18–19 (July 17, 2023) (eDocket No. [20237-197559-01](#)).

<sup>258</sup> *In re Appl. of N. States Power Co. for Authority to Increase Its Rates for Elec. Serv. in the State of Minn.*, E-002/GR-21-630, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 18–19 (July 17, 2023) (eDocket No. [20237-197559-01](#)).

<sup>259</sup> Ex. Xcel-62 at 13 (Ly Direct).

<sup>260</sup> Ex. DOC-4 at 31 (Kehrwald Surrebuttal).

<sup>261</sup> *In re Appl. of N. States Power Co. for Authority to Increase Its Rates for Elec. Serv. in the State of Minn.*, E-002/GR-21-630, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 19 (July 17, 2023) (eDocket No. [20237-197559-01](#)).

<sup>262</sup> Evid. Hrg. Tr. Vol. 1 at 171–72 (Ly).

159. Xcel also argued that the Commission should change the AIP recovery cap administration from an individual basis to an aggregate basis.<sup>263</sup> Xcel argued that an aggregate cap would allow for “appropriate differentiation in individual performance” and would avoid “arbitrary limits” on payouts.<sup>264</sup>

160. The Department argued that administering the cap on an individual basis prevents ratepayers from subsidizing excessively large AIP payouts for some individuals when other individuals fail to meet their performance goals.<sup>265</sup> The Department noted, and Xcel’s witness admitted that administering the cap on an aggregate basis decreases the likelihood that ratepayers would get a refund of unpaid AIP.<sup>266</sup>

161. The Judge agrees that Xcel has failed to carry its burden that its AIP cap should be increased to 20% or the administration should be changed from an individual to an aggregate basis. The Commission rejected these identical requests in Xcel’s last rate case. Xcel has not changed anything about its AIP. Xcel’s AIP compensation still incentivizes employees to work in shareholder interests by employing an EPS threshold. The Commission should maintain Xcel’s AIP recovery with a cap at 15% of base salary, and that cap should be administered on an individual basis.

#### **4. Top 10 Executive Compensation**

162. In this case, the Commission expressly identified top-ten executive compensation as an issue for which the parties should develop a full factual record.<sup>267</sup> Xcel seeks to recover \$15 million in compensation for its ten highest-paid executives in this MYRP.<sup>268</sup>

163. Xcel argued that this level of compensation is necessary to attract and retain employees necessary to provide services.<sup>269</sup> Xcel supported this argument with a market compensation study.<sup>270</sup> This study compared Xcel Energy, Inc.’s top-ten executive compensation with other companies and found that Xcel Energy, Inc.’s compensation package is competitive in the market.<sup>271</sup>

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<sup>263</sup> Ex. Xcel-63 at 17-19 (Ly Rebuttal).

<sup>264</sup> Ex. Xcel-63 at 18 (Ly Rebuttal).

<sup>265</sup> Ex. DOC-4 at 45 (Kehrwald Surrebuttal)

<sup>266</sup> Evid. Hrg. Tr. At 175-76 (Ly).

<sup>267</sup> *In re Appl. of N. States Power Co. for Authority to Increase Its Rates for Elec. Serv. in the State of Minn.*, E-002/GR-24-320, NOTICE OF AND ORDER FOR HEARING at 2 (December 30, 2024) (Notice of and Order for Hearing).

<sup>268</sup> Ex. DOC-3, MBK-D-18 at 2 and 6 (Xcel’s Revised Supplemental Response to DOC IR No. 121). These figures are inclusive of base salary, AIP capped at 20%, environmental and time-based LTI, and other compensation.

<sup>269</sup> Ex. Xcel-62 at 35 (Ly Direct).

<sup>270</sup> Ex. Xcel-66 at 6 and Schedule 2 (Mustich Direct).

<sup>271</sup> Ex. Xcel-66 at 6 and Schedule 2 (Mustich Direct).

164. The Department argued that Xcel's compensation study is flawed because it compares peers of Xcel Energy, Inc, instead of Northern States Power – Minnesota.<sup>272</sup> The Department also highlighted, and Xcel's witness admits, that the compensation study does not speak to what portion of the executive's market-competitive compensation should be recovered from ratepayers.<sup>273</sup>

165. The Department argued that Xcel has failed to carry its burden to show that it is reasonable for Xcel to recover compensation for its top ten executives because Xcel has not shown that they work in the interest of ratepayers.<sup>274</sup> The Department argued that the top-ten executives receive most of their pay through incentive compensation, thus incentivizing their work in shareholder interest instead of ratepayer interests.<sup>275</sup> Additionally, Xcel failed to provide written performance reviews or evaluations for most of its top-ten executives.<sup>276</sup>

166. The Judge finds that Xcel has failed to carry its burden to show that recovery of compensation for its top ten highest paid executives is reasonable. Xcel heavily weights these executive's compensation toward incentive compensation. This is problematic because, as noted above, Xcel's incentive compensation encourages work in shareholder interests. Additionally, Xcel cannot show that it has any meaningful job descriptions or performance metrics for these positions, making its claim that it needs to pay to retain highly talented executives suspect. The Commission should not allow Xcel to recover any of its top ten executive compensation.

## **5. Limited-Availability Benefits**

167. Xcel seeks to recover \$200,000 over the two-year MYRP for limited availability perks for its executives and vice presidents.<sup>277</sup> These perks include \$6,000 for physicals and \$12,480 for financial, tax, and estate planning services.<sup>278</sup>

168. The Department recommended removing these perks from Xcel's revenue requirement because these individuals are already highly compensated and these benefits simply represent additional perks above and beyond their normal compensation.<sup>279</sup>

169. Xcel did not discuss these perks in its direct testimony.<sup>280</sup> Xcel argued in rebuttal, however, that it is arbitrary to single out individual perks for disallowance and

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<sup>272</sup> Ex. DOC-4 at 54 (Kehrwald Surrebuttal).

<sup>273</sup> Evid. Hrg. Tr. Vol. 1 at 192 (Mustich).

<sup>274</sup> Ex. DOC-4 at 46-47 (Kehrwald Surrebuttal).

<sup>275</sup> Ex. DOC-4 at 57-58 (Kehrwald Surrebuttal).

<sup>276</sup> Ex. DOC-4 at 57-58 (Kehrwald Surrebuttal).

<sup>277</sup> Ex. DOC-3, MBK-D-29 at 2 (Kehrwald Direct) (Xcel Supp. Response to DOC 2156).

<sup>278</sup> Ex. DOC-3, MBK-D-28 at 1 (Kehrwald Direct) (Xcel's Response to DOC 124, Part B).

<sup>279</sup> Ex. DOC-3, MBK-D-28 at 1 (Kehrwald Direct) (Xcel's Response to DOC 124, Part B).

<sup>280</sup> Ex. DOC-4 at 49 (Kehrwald Surrebuttal).

that these perks reduce the risk of turnover and are part of Xcel's market-competitive compensation package.<sup>281</sup>

170. The Judge finds that Xcel has not carried its burden to establish that these additional limited availability perks are reasonable. First, Xcel's executives and vice-presidents are already highly compensated and Xcel has not provided a reasonable justification for these additional perks. Second, like the top-ten executive compensation discussed above, Xcel has not shown that these executives or vice-presidents are working in rate-payer interests, or that this additional compensation serves ratepayers in any way. The Commission should not allow Xcel to recover its limited availability perks.

## 6. Non-Qualified Benefits

171. Xcel proposes to recover non-qualified expenses of \$44,662 for 2025 and \$48,394 for 2026.<sup>282</sup> These expenses are paid to highly compensated individuals who exceed the Internal Revenue Service's compensation limit for 401(k) savings matching.<sup>283</sup>

172. Xcel did not provide any direct testimony or evidence to support these non-qualified expenses, but notes that they were included in schedules or tables attached to direct testimony and are part of Xcel's compensation and benefits necessary to remain market-competitive.<sup>284</sup>

173. The Department recommended disallowing these deferred compensation benefits because Xcel has not supported the request and these benefits are "excessive" considering that the employees who receive these benefits are already highly paid.<sup>285</sup> The Department also noted that the Commission has a long history of disallowing non-qualified benefits.<sup>286</sup>

174. The Judge agrees that Xcel has not provided sufficient support to show that these benefits are reasonable. The lack of any direct testimony on this subject alone is sufficient to disallow recovery. And the Commission does have a significant history of disallowing these exact benefits.<sup>287</sup> The Commission should not allow Xcel to recover its non-qualified benefits.

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<sup>281</sup> Ex. Xcel-67 at 11–12 (Mustich Rebuttal); Ex. Xcel-63 at 36–37 (Ly Rebuttal).

<sup>282</sup> Ex. Xcel-57 at 7, Table 2 (Schrubbe Direct).

<sup>283</sup> Ex. Xcel-57 at 45 (Schrubbe Direct).

<sup>284</sup> Xcel Initial Br. at 120.

<sup>285</sup> Ex. DOC-3 at 48 (Kehrwald Direct).

<sup>286</sup> Ex. DOC-3 at 47 (Kehrwald Direct).

<sup>287</sup> *In re CenterPoint Energy Resources Co.'s Appl. for Auth. to Increase Nat. Gas Rates. in Minn.*, Docket No. G-008/GR-21-435, Johnson Direct at 21 and Ex. DOC-MAJ-D-6 at 2 (Johnson Direct) (June 9, 2014) (eDocket No. 20222-182509-01); *In re CenterPoint Energy Resources Co.'s Appl. for Auth. to Increase Nat. Gas Rates. in Minn.*, Docket No. G-008/GR-13-316, FINDINGS OF FACT, CONCLUSIONS, & ORDER at 12-13 (June 9, 2014) (eDocket No. 20146-100252-01); *In re Minn. Power's Appl. to Increase Rates for Elec. Serv. in Minn.*, Docket No. E-015/GR-16-664, FINDINGS OF FACT, CONCLUSIONS, & ORDER

**7. Miscellaneous Benefits, Life, and Long-Term Disability expenses.**

175. Xcel is seeking to recover nearly \$8 million in miscellaneous benefits, life, and Long-Term Disability (LTD) expenses.<sup>288</sup> The parties do not dispute that recovery of such expense is generally reasonable but disagree over how this expense should be calculated for the MYRP.

176. The Department recommended that miscellaneous benefits, life, and LTD expenses be calculated for test year 2025 and plan year 2026 based on an average of Xcel's actual expenses from 2021 to 2024, and apply an inflator based on the average annual increases from 2021 to 2024.<sup>289</sup> The Department's position is that it is more accurate to use actual averages than to apply an inflator to the 2024 projection, which exceeded Xcel's 2024 actual costs.<sup>290</sup>

177. Xcel did not directly address this issue in its testimony but points to tables and schedules to support its position.<sup>291</sup> Xcel argued that testimony in the record establishes actual expenses in 2023, forecasts for 2024, and forecasts for each year of the MYRP.<sup>292</sup> Xcel also argued that, even though its forecast for these expenses was higher than actual expenses for 2024, the MYRP should not be used to make up costs that were higher or lower than forecasted in prior rate cases.<sup>293</sup>

178. The Judge, and the Department, agree with Xcel that the MYRP should not be a vehicle to "make-up" for Xcel's over-forecasts in prior rate cases. Those forecasts

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at 31–34 (Mar. 12, 2018) (eDocket No. 20183-140963-01); *In re Minn. Energy Resources Corp.'s Appl. for Auth. to Increase Rates for Nat. Gas Serv. in Minn.*, Docket No. G-011/GR-15-736, FINDINGS OF FACT, CONCLUSIONS, & ORDER at 10 (Oct. 31, 2016) (eDocket No. 201610-126124-01); *In re Minn. Energy Resources Corp.'s Appl. for Auth. to Increase Rates for Nat. Gas Serv. in Minn.*, Docket No. G-011/GR-10-977, FINDINGS OF FACT, CONCLUSIONS, & ORDER at 27 (Jul. 13, 2012) (eDocket No. 20127-76778-01); *In re Northern States Power Company, dba Xcel Energy Appl. for Auth. to Increase Elec. Serv. Rates in Minn.*, Docket No. E-002/GR-13-868, Xcel Heuer Rebuttal at 21 (July 7, 2014) (eDocket No. 20147-101229-07); *In re Northern States Power Company, dba Xcel Energy Appl. for Auth. to Increase Elec. Serv. Rates in Minn.*, Docket No. E-002/GR-12-961, FINDINGS OF FACT, CONCLUSIONS, & ORDER at 7 (Sep. 3, 2013) (eDocket No. 20139-90902-01); *In re Otter Tail Power Co.'s Appl. for Auth. to Increase Rates for Elec. Serv. in Minn.*, Docket No. E-017/GR-10-239, FINDINGS OF FACT, CONCLUSIONS, & ORDER at 27 in footnote 26 (April, 25, 2011) (eDocket No. 20114-61715-01).

<sup>288</sup> Ex. Xcel-57 at 7, Table 2 (Schrubbe Direct).

<sup>289</sup> Ex. DOC-3 at 44 (Kehrwald Direct).

<sup>290</sup> Ex. DOC-3 at 43 (Kehrwald Direct).

<sup>291</sup> Xcel Initial Br. at 117-18.

<sup>292</sup> Xcel Initial Br. at 117 (citing Ex. Xcel-57 at 6-7, Table 2, Schedules 2 and 15 (Schrubbe Direct)).

<sup>293</sup> Xcel Initial Br. at 118.

that exceed actual costs, however, should not be used as the basis for future projections. The Judge agrees with the Department that Xcel's miscellaneous benefits, life, and LTD expenses should be forecast using the Department's recommended methodology, using an average of actual expenses from 2022 to 2024 and applying an inflator based on the average annual increase from 2021 to 2024.

**C. Sherco 3 and King Plant Depreciation Expense.**

179. In 2022, the Commission approved shortening the lives of the Allen S. King and the Sherco Unit 3 coal plants by nine and ten years, respectively.<sup>294</sup> This resulted in a planned retirement of King in 2028, and a planned retirement of Sherco 3 in 2030. In Xcel's 2021 rate case, the company initially requested that the remaining depreciable lives of these units be shorted to reflect these retirement dates.<sup>295</sup> By the time the rate case was before the Commission, Xcel and the Department agreed that it would be reasonable to defer a decision, and open a new docket to consider alternative rate-treatment proposals for the plants.<sup>296</sup> Xcel, the Department, and OAG agreed that any financial adjustments resulting from decisions made in the new docket should be implemented in Xcel's next rate case or other appropriate proceeding.<sup>297 298</sup>

180. After the company submitted direct and supplemental direct testimony, the Commission issued its order in the docket considering ratemaking treatment for early-retiring generating facilities.<sup>299</sup> The order established a four-tiered approach for ratemaking treatment:

Tier 1: Data Gathering Phase: Is plant used and useful, plant size, original date of retirement, impact on ratepayers and has the utility prudently operated the plant will also be considered. Move to Tier 2.

Tier 2: Does the early-retiring asset meet the criteria established for accelerated depreciation? If yes, stop. Assign accelerated depreciation. If no, move to Tier 3.

Tier 3: Does the early-retiring asset meet the Tier 2 standards, except that accelerated depreciation would cause rate shock? If yes, assign regulatory asset

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<sup>294</sup> 2021 RATE CASE ORDER at 10.

<sup>295</sup> 2021 RATE CASE ORDER at 11.

<sup>296</sup> 2021 RATE CASE ORDER at 11.

<sup>297</sup> 2021 RATE CASE ORDER at 11.

<sup>298</sup> *In re Xcel Energy's 2024–2040 Upper Midwest Integrated Resource Plan*, MPUC Docket No. 24-67, ORDER APPROVING SETTLEMENT WITH MODIFICATIONS at 10 (Apr. 21, 2025) (eDocket No. [20254-217941-01](#)) (ORDER APPROVING XCEL 2024–2040 IRP).

<sup>299</sup> *In re Comm'n Inquiry into the Ratemaking Treatment for Early Retiring Generating Facilities Owned by Regul. Elec. Util.*, MPUC Docket No. 23-375, ORDER ESTABLISHING FOUR-TIERED APPROACH FOR RATEMAKING TREATMENT OF EARLY-RETIRING GENERATING FACILITIES (May 14, 2025) (eDocket No. [20255-218956-01](#)) (FOUR-TIERED RATEMAKING ORDER).

with a possible return. If no, move to Tier 4.

Tier 4: Further investigation is required to determine appropriate ratemaking treatment. (Tier 4 assumes the asset is of unique nature or the plant was not used and useful at the time of early-retirement or possible prudency concern.)<sup>300</sup>

The order noted that ratemaking treatment would be applied on a case-by-case basis, and directed that any changes to the ratemaking treatment of early-retiring generating facilities be handled in rate cases.<sup>301</sup>

181. The Department recommended that the depreciation lives of the Sherco 3 and King coal plants be adjusted to match the operating lives authorized for the plants in Xcel's 2024–2040 Integrated Resource Plan (IRP).<sup>302</sup> The Department made the same recommendation for Xcel's nuclear generating plants, which had their operating lives extended.<sup>303</sup> This resulted in an increased revenue requirement for the depreciation expense for the coal plants, and a decreased revenue requirement for the depreciation expense for the nuclear plants. The net impact to revenue requirements was a \$10,890,204 decrease for 2025, and a \$13,561,708 decrease for 2026.<sup>304</sup>

182. The Department provided several reasons to support its recommendation. Depreciation lives are traditionally (though not always) updated to match the operating lives approved in IRPs.<sup>305</sup> Matching depreciation lives with operating lives avoids intergenerational subsidies (i.e., future ratepayers paying for benefits received by current ratepayers).<sup>306</sup> Here, there is an opportunity to pair the accelerated depreciation for the early-retiring coal plants with the extension of depreciation lives for the nuclear plants, resulting in a net reduction to revenue requirements when taken together.<sup>307</sup> The Commission's Four-Tiered Ratemaking Order instructs that adjustments to depreciation lives should take place in rate cases, which means that it will be several years before the Commission's next opportunity to adjust depreciation lives.<sup>308</sup> Additionally customers pay their bills as a whole and not by plant, so the net reduction for both depreciation changes does not result in rate shock for customers. Finally, if Xcel's proposal to create a regulatory asset earning the same rate of return as rate base is granted, ratepayers will

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<sup>300</sup> FOUR-TIERED RATEMAKING ORDER at Order Point 1.

<sup>301</sup> FOUR-TIERED RATEMAKING ORDER at Order Points 2, 3.

<sup>302</sup> Ex. DOC-23 at 14 (Jones Direct).

<sup>303</sup> Ex. DOC-23 at 14 (Jones Direct). No party objected to the Department's recommendation regarding the nuclear generating plants. This adjustment is addressed in Section IV.F. below.

<sup>304</sup> Ex. DOC-23 at 15 (Jones Direct).

<sup>305</sup> Ex. DOC-23 at 14 (Jones Direct).

<sup>306</sup> Ex. DOC-24 at 19 (Jones Surrebuttal).

<sup>307</sup> Ex. DOC-24 at 19 (Jones Surrebuttal).

<sup>308</sup> Ex. DOC-24 at 19 (Jones Surrebuttal).

end up paying \$63 million more in rates than they would under the Department's proposal.<sup>309</sup>

183. Xcel opposed the Department's recommendation. Xcel argued that the impact to the company's revenue requirement was unreasonably large, and accelerated depreciation was therefore inappropriate.<sup>310</sup> Xcel recommended that a regulatory asset be created for each plant at the time of its retirement, with the rate of return for the regulatory asset matching the company's authorized rate of return on rate base.<sup>311</sup> Xcel stated that its recommendation was "a balanced solution" that "ensures the Company has the opportunity to recover prudently incurred costs related to [the early-retiring coal] plants."<sup>312</sup>

184. XLI and OAG also opposed the Department's recommendation. They recommended that the Commission maintain the current depreciation schedules for Sherco 3 and King.<sup>313</sup> They argued that there was insufficient record development to support the Department's proposal.<sup>314</sup> They asserted that the effect of matching the depreciation lives to operating lives should be assessed for rate shock on a plant by plant basis, rather than by considering net impact.<sup>315</sup> They also argued that the early retirement of coal plants benefits post-retirement ratepayers, and accelerated depreciation would therefore result in intergenerational inequities for current ratepayers.<sup>316</sup>

185. Utilities recover capital costs for assets "used and useful" in providing service by depreciating those costs over a number of years.<sup>317</sup> The Commission's rules require generally that the costs of an asset be amortized over its "probable service life," which is defined as the "period of time extending from the date of its installation to the forecasted date when it will probably be retired from service."<sup>318</sup>

186. The Judge agrees that recognizing the reduced remaining lives carries forward the traditional treatment of depreciable lives to match the operating lives in Xcel's most recent IRP. Additionally, in this specific case, the reduced remaining lives for Sherco 3 and King can be offset with the extension of the Monticello and Prairie Island plants' remaining lives. The Judge believes that recognizing and matching the remaining depreciation lives with operating lives already approved in Xcel's most recent IRP now is sensible as it will result in a net reduction to the revenue requirement, allowing Xcel to recover its investment in the plants, and reducing costs for ratepayers.

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<sup>309</sup> Ex. DOC-24 at 20 (Jones Surrebuttal).

<sup>310</sup> Ex. Xcel-17 at 51 (Halama Direct).

<sup>311</sup> Ex. Xcel-17 at 49, 76 (Halama Direct).

<sup>312</sup> Ex. Xcel-17 at 49 (Halama Direct).

<sup>313</sup> Ex. OAG-6 at 3, 10 (Lee Rebuttal); Ex. XLI-5 at 6, 9 (LaConte Rebuttal).

<sup>314</sup> Ex. OAG-6 at 5, 9–10 (Lee Rebuttal); Ex. XLI-5 at 5 (LaConte Rebuttal).

<sup>315</sup> Ex. OAG-6 at 5 (Lee Rebuttal); Ex. XLI-5 at 7–9 (LaConte Rebuttal).

<sup>316</sup> Ex. OAG-6 at 5–6 (Lee Rebuttal); Ex. XLI-5 at 7 (LaConte Rebuttal).

<sup>317</sup> See, e.g., Minn. Stat. § 216B.16, subd. 6.

<sup>318</sup> Minn. R. 7825.0500, subps. 2, 10 (2025).

**D. Future Depreciation Studies.**

187. Xcel proposed filing Annual Remaining Lives (ARL) and Transmission, Distribution, and General asset (TD&G) filings concurrently only with major rate cases.<sup>319</sup> This practice would lessen administrative burdens while removing the disconnect between accounting for depreciation and the revenue requirements set in rate cases.<sup>320</sup>

188. The Department had no objections to Xcel's proposal.<sup>321</sup> The Department requested that if the proposal was approved, Xcel file the depreciation study 90 days before any future rate case filing.<sup>322</sup> The Department also recommended that Xcel file a depreciation study at least every five years in the event that the company goes more than five years between rate cases.<sup>323</sup>

189. Xcel committed to filing a depreciation study at least every five years.<sup>324</sup> The company agreed to file ARL and TD&G filings before filing a rate case, but argued that it was appropriate to make those filings 30 days before a rate case to align with the Sales Forecast Prefiling required by the Commission's order in Docket No. 12-961.<sup>325</sup>

190. The Department believes that it would be beneficial to have more than 30 days to review depreciation filings, and updated its position to request that Xcel file ARL and TD&G filings at least 60 days before future rate case filings.<sup>326</sup>

191. The Judge finds the parties' proposal for Xcel to file ARL and TD&G filings only when a rate case is filed, or at least every five years in the event that the company goes more than five years between rate cases, to be reasonable. This proposal will reduce administrative burden and cost, while aligning accounting for depreciation and the revenue requirements set in rate cases. The Judge finds the Department's request for such filings to be made 60 days before filing a rate case to be reasonable. The Judge recommends that the Commission adopt the parties' proposal regarding the ARL and TD&G filings, and the Department's request regarding the timing of those filings.

**E. Riverside Plant Outage.**

192. In April 2025, Xcel's Riverside plant experienced a mechanical failure that caused the unit to trip and remain offline.<sup>327</sup> The plant is not expected to return to service

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<sup>319</sup> Ex. Xcel-69 at 50 (Johnson Direct).

<sup>320</sup> Ex. Xcel-69 at 50 (Johnson Direct).

<sup>321</sup> Ex. DOC-23 at 17 (Jones Direct).

<sup>322</sup> Ex. DOC-23 at 17 (Jones Direct).

<sup>323</sup> Ex. DOC-23 at 17 (Jones Direct).

<sup>324</sup> Ex. Xcel-86 at 5 (Moeller Rebuttal).

<sup>325</sup> Ex. Xcel-86 at 5 (Moeller Rebuttal).

<sup>326</sup> Ex. DOC-24 at 22 (Jones Surrebuttal).

<sup>327</sup> Ex. DOC-1 at 46 (Johnson Direct).

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until the summer of 2026.<sup>328</sup> As a result, the Department concluded that Riverside would not be “used and useful” for the duration of the test years<sup>329</sup> and, as a result, should be removed from rate base on pro rata basis consistent with the Commission’s decision following the Sherco Unit 3 outage. Following the Sherco Unit 3 outage, the Commission:

- removed all direct Sherco 3 costs, except property taxes, from the 2013 test year;
- permitted Xcel to defer the unit’s 2013 depreciation expense; and
- deferred questions about whether Xcel had prudently incurred replacement power costs to a future fuel cost adjustment proceeding.<sup>330</sup>

193. Here, the Department similarly recommended that the Commission remove Riverside from rate base and related operating and maintenance expenses for the portions of the 2025 and 2026 test years when it will not be in-service but permit recovery of property taxes and depreciation expense.<sup>331</sup> The Department’s recommendation reduces Xcel’s proposed revenue requirement by about \$9.9 million for 2025 and \$7.2 million for 2026.<sup>332</sup> Lastly, the Department recommended that the Commission order a contested-case proceeding, where engineering analysis may occur, to evaluate whether Xcel prudently incurred replacement power costs during the Riverside outage.<sup>333</sup>

194. Xcel disagreed with the Department’s recommendation. Xcel asserted that it was appropriate for Riverside to remain in rate base. But in the case that the Commission removed it, then it must also remove capacity revenues that would otherwise reduce Xcel’s revenue requirement in the favor of ratepayers. Put differently, Xcel contented that the Department “s[ought] to have it both ways” by both removing Riverside from rate base while retaining capacity revenues.

195. In response, the Department asserted that whether or Riverside accrued capacity revenues was irrelevant to determining whether the plant will be “used and useful” during the test years. The Department observed that the “used and useful” standard requires that utility property be both “in service” and “reasonably necessary to

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<sup>328</sup> Ex. DOC-1 at 46 (Johnson Direct).

<sup>329</sup> *Senior Citizens Coalition of N. Minn. v. MPUC*, 355 N.W.2d 295 (Minn. 1984) (holding that utility property be both “in service” and “reasonably necessary to the efficient and reliable provision of utility service.”)

<sup>330</sup> *In re N. States Power Co. for Auth. to Increase Rates for Elec. Serv. in the State of Minn.*, Docket No. E002/GR-12-961, FINDINGS OF FACT, CONCLUSIONS, & ORDER at 20 (Sept. 3, 2013).

<sup>331</sup> Ex. DOC-2 at 30 (Johnson Surrebuttal).

<sup>332</sup> Ex. DOC-2 at 30 (Johnson Surrebuttal).

<sup>333</sup> Ex. DOC-2 at 29 (Johnson Surrebuttal).

the efficient and reliable provision of utility service.”<sup>334</sup> And neither prong considers the existence of capacity revenues. The Department also asserted that because the capacity revenues accrued when Riverside was still in-service and properly included in rate base, it was appropriate for customers to retain the revenues even if the plant was no longer used and useful now.<sup>335</sup>

196. The Department also raised a practical consideration: even though capacity revenues are included in Xcel’s test years, those figures are placeholders because Xcel has a capacity revenue tracker that will be reconciled later. In the Department’s view, that reconciliation should occur after completing the contested-case proceeding investigating Xcel’s responsibility for the outage.<sup>336</sup> The Department further took the position if Xcel is found to be imprudent, then ratepayers will be entitled to the capacity revenues as part of holding them harmless from the outage.<sup>337</sup> On the other hand, the Department explained that if Xcel can demonstrate that its imprudence did not contribute to the outage, the Commission will need decide whether to credit Xcel with the capacity revenues or create a regulatory asset for period where Riverside was not in rate base.<sup>338</sup>

197. The Judge recommends that the Commission adopt the Department’s recommendation regarding the Riverside plant because it is consistent with the “used and useful” standard and prior Commission precedent. The record shows that Riverside will remain offline for portions of the test years, meaning it cannot be considered in service or reasonably necessary to provide utility service during that period. The Department’s recommendation to remove Riverside from rate base and related operating and maintenance expenses on a pro rata basis, while allowing recovery of property taxes and depreciation expense, mirrors the Commission’s approach following the Sherco Unit 3 outage and appropriately balances fairness to ratepayers with recognition of unavoidable costs. Xcel’s argument that capacity revenues should also be removed is unpersuasive because those revenues accrued when Riverside was operational and will be reconciled later through the capacity revenue tracker. Adopting the Department’s recommendation will prevent customers from paying for an asset that is not providing service, while preserving a process to evaluate prudence and address capacity revenues in a future contested case.

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<sup>334</sup> *Senior Citizens Coalition of N. Minn. v. Minn. Pub. Utils. Comm’n*, 355 N.W.2d 295 (Minn. 1984).

<sup>335</sup> DOC Reply Br. at 21–22.

<sup>336</sup> 2021 Rate Case Order at 155 (adopting the ALJ report except as otherwise noted); *In re Appl. of N. States Power Co. for Authority to Increase Its Rates for Elec. Serv. in the State of Minn.*, E-002/GR-21-630, FINDINGS OF FACT, CONCLUSIONS OF LAW, & RECOMMENDATIONS ¶¶ 150-152 (Mar. 31, 2023) (eDocket no. [20233-194394-01](#)) (recommending adoption of a capacity revenues tracker); see also, e.g., *In re Xcel Energy’s Pet. for Approval of its 2024 Sales & Related Revenue Calculations*, Docket No. E-022/M-25-56, ORDER at 1 (July 1, 2025) (eDocket no. [20257-220520-01](#)).

<sup>337</sup> DOC Reply Br. at 21–22.

<sup>338</sup> DOC Reply Br. at 21–22.

## F. Prepaid Pension and Accrued Liabilities.

198. The parties agree that Xcel is entitled to a return on the value of its interest in the prepaid pension asset.<sup>339</sup> The disputed issue is the value of Xcel's interest in that asset for ratemaking purposes. According to Xcel, the prepaid pension asset is the value of qualified pension plan contributions in excess of actuarially calculated pension expense.<sup>340</sup> Xcel asserts that the prepaid pension asset is worth \$90.2 million in 2025 and \$85.6 million in 2026 in net rate base, resulting in \$9.6 million and \$9.1 million revenue requirements in 2025 and 2026, respectively.<sup>341</sup> The Department contends that the value of Xcel's interest in the prepaid pension asset is likely nominal because the company retains only a contingent reversionary interest in the asset.

### 1. Department Recommendation

199. Before getting into the dispute background on Employee Retirement Income Security Act ("ERISA") and common-law trust principles is necessary. Under ERISA, Xcel's pension plan contributions must be held in trust.<sup>342</sup> Consistent with common-law trust principles,<sup>343</sup> ERISA requires that pension trust assets be used exclusively for beneficiaries (as opposed to settlors or trustees).<sup>344</sup> There are only three exceptions to this rule. Only one of them is relevant.<sup>345</sup> If a single-employer plan is terminated and all liabilities of the plan beneficiaries have been satisfied, then any residual assets may be distributed to the employer.<sup>346</sup> These legal requirements preclude

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<sup>339</sup> *In re Appl. by N. States Power Co.*, No. A23-1672, 2025 WL 249995, at \*9 (Minn. Ct. App. Jan. 21, 2025) (citing *In re Appl. by Minn. Power for Auth. to Increase Rates for Elec. Serv.*, 12 N.W.3d 477, 493 (Minn. App. 2024) (holding the Commission must give "due consideration" to a utility's mandatory contributions to pension plans in determining the utility's rate base.))

<sup>340</sup> Ex. Xcel-57 at 55 (Schrubbe Direct).

<sup>341</sup> Ex. DOC-11, SDH-S-6 (Hunt Surrebuttal).

<sup>342</sup> 29 U.S.C. § 1103(a); ERISA Practice and Litigation § 7:3; Evid. Hrg. Tr. Vol. 1 at 203 (Schrubbe).

<sup>343</sup> A trust instrument creates a fiduciary relationship with respect to property. *Sec. Bank & Tr. Co. v. Larkin, Hoffman, Daly & Lindgren, Ltd.*, 916 N.W.2d 491, 501 (Minn. 2018). A person, the trustee, holds legal title to trust property, sometimes called the *res* or corpus, for the benefit of another, the beneficiary, who holds equitable title to the property. *Id.*

<sup>344</sup> 29 U.S.C. § 1103(c)(1) (prohibiting prohibits plan assets from "inur[ing] to the benefit of any employer.>").

<sup>345</sup> The other exceptions permit an employer to withdraw plan assets if a contribution is made by mistake, 29 U.S.C. § 1103(c)(2), or if a contribution is conditioned on qualification of the plan by the IRS for tax deductibility. *Id.*, (b)–(c).

<sup>346</sup> 29 U.S.C. § 1344(d)(1); *Dame v. First Nat. Bank of Omaha*, 217 F.3d 1018, 1020 (8th Cir. 2000) (affirming that funds remaining in single-employer pension plan after its termination reverted to employer).

an employer from maintaining more than a contingent reversionary interest in pension trust property.

200. Against this backdrop, the Department gives several reasons that Xcel has only a limited interest in pension trust property:

- Reflecting ERISA requirements, both of Xcel’s pension trust agreements require that pension trust funds be held “separate and apart” from employer assets and prohibit their use for “purposes other than for the exclusive benefit of Beneficiaries.”<sup>347</sup>
- Xcel may only access residual pension trust funds after satisfying liabilities to plan beneficiaries.<sup>348</sup> Given these limitations, Xcel is not a beneficiary.<sup>349</sup> Because Xcel is not a beneficiary, the Department asserts, Xcel holds no equitable title in the trust property.<sup>350</sup>
- The Department further contends that Xcel does not hold legal title to the trust property because it is not a trustee.<sup>351</sup>

201. Based on these determinations, the Department concluded that Xcel has only an interest in residual assets at the time of trust termination, characterizing this as a contingent reversionary interest.<sup>352</sup>

202. After concluding that Xcel has only a contingent reversionary interest in the prepaid pension asset, the Department asserted that—as a matter of law—reversionary interests have only have nominal and often no ascertainable value, even when extinguished, unless the interest will be realized soon.<sup>353</sup>

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<sup>347</sup> Ex. DOC-11, SDH-S-5 at 92, 266 (Hunt Surrebuttal).

<sup>348</sup> Ex. DOC-11, SDH-S-5 at 78, 252 (Hunt Surrebuttal).

<sup>349</sup> Ex. DOC-11, SDH-S-4 at 2 (Hunt Surrebuttal).

<sup>350</sup> *Sec. Bank & Tr. Co.*, 916 N.W.2d at 501.

<sup>351</sup> *Sec. Bank & Tr. Co.*, 916 N.W.2d at 501; Ex. DOC-11, SDH-S-4 at 2 (Hunt Surrebuttal); Evid. Hrg. Tr. Vol. 1 at 204 (Schrubbe) (“Q. You agree that Xcel is not a plan participant, right? A. That’s correct. Q. Nor otherwise a beneficiary of the trust? A. No, . . . we’re a fiduciary responsible. Q. And Xcel’s not the trustee either? A. No. Q. That’s . . . Principal Financial Services? A. That’s correct.”).

<sup>352</sup> Restatement (Third) of Property § 25.2 (2011) (“A future interest is either a reversion or a remainder. A future interest is a reversion if it was retained by the transferor. A future interest is a remainder if it was created in a transferee.”).

<sup>353</sup> 28 Am. Jur. 2d *Estates* § 189 (2020) (“Generally, a possibility of reverter has no ascertainable value when the event upon which the possessory estate in fee simple defeasible will end is not likely to occur in the near future.”); Restatement (First) of Property § 53 (1936) (treating the owner of an estate in fee simple defeasible as identical with that of an owner of a estate in fee simple absolute for purposes of eminent domain); *see also United States v. Certain Land in Cook Cnty., State of Minn.*, 248 F. Supp. 681, 682–83 (D. Minn. 1965) (explain that the owner of reversionary interest is ordinarily only

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203. Here, the Department asserted that Xcel's contingent reversionary interest was unlikely to be realized soon, thereby leaving it with at most nominal value for ratemaking purposes. In support of its position that Xcel was unlikely to release this interest soon, the Department cited the following facts:

- Xcel intends to continue operating the pension trust in perpetuity.<sup>354</sup>
- And even if Xcel did intend to terminate the trust, it would be impossible to reliably calculate the value of its interest now.<sup>355</sup> Such a calculation would depend on too many contingencies such as life expectancy, investment returns, and discount rates.<sup>356</sup>

204. Based on this analysis, the Department concluded that Xcel should only earn a return on the value of its interest in excess pension contributions. Since that interest has little to no value, the Department reasoned that the Commission should deny Xcel any return on the prepaid pension asset.

205. The Department also offered an alternative recommendation if the Commission decides to grant Xcel a return, even though the Company has no legal right to one. In that case, the Department recommended that the rate of return not exceed Xcel's long-term cost of debt.<sup>357</sup> According to the Department, using the long-term cost of debt instead of the weighted average cost of capital customarily applied to rate base assets is appropriate for several reasons.

206. Beyond its contention that Xcel has only a limited interest in the prepaid pension asset, the Department also asserted that prepaid pension lacks the characteristics of other rate base assets.<sup>358</sup> The cost of most rate base assets are fully

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entitled to "nominal compensation" when that interest is extinguished); *State by Mondale v. Indep. Sch. Dist. No. 31*, 123 N.W.2d 121, 129–30 (Minn. 1963) (holding that "the owner of a possibility of a reverter" is typically only entitled to nominal compensation upon being extinguished except where abandonment of the current use is imminent or would have greater market value if devoted to another use); *Leeco Gas & Oil Co. v. Nueces Cnty.*, 736 S.W.2d 629, 630–31 (Tex. 1987) (explain that "a mere possibility of reverter has no ascertainable value when the event upon which the possessory estate in fee simple defeasible is to end is not probable within a reasonably short period of time"); *6810 S. Hazel St. LLC v. Jefferson Hosp. Ass'n Inc.*, No. 5:19-CV-00322-LPR, 2020 WL 7028704, at \*2 (E.D. Ark. Nov. 30, 2020) (explaining that the ascertainable value of a reverter interest is generally nominal with limited exceptions)

<sup>354</sup> Evid. Hrg. Tr. Vol. 1 at 208 (Schrubbe).

<sup>355</sup> Evid. Hrg. Tr. Vol. 1 at 209 (Schrubbe).

<sup>356</sup> Evid. Hrg. Tr. Vol. 1 at 209 (Schrubbe).

<sup>357</sup> Ex. DOC-11 at 15 (Hunt Surrebuttal).

<sup>358</sup> Ex. DOC-11 at 7 (Hunt Surrebuttal).

known and paid upfront at the time the asset is placed in rate base.<sup>359</sup> These costs are recovered from customers through depreciation and a return built into rates over a predictable period.<sup>360</sup> In contrast, prepaid pension assets represent a balancing account that increases where pension contributions exceed expenses and declines where pension contributions are less than expenses.<sup>361</sup> Put differently, most rate base assets reflect a one-time capital outlay to construct or purchase a physical object that declines in value as it ages into obsolescence, but prepaid pension assets fluctuate in value based on timing differences.

207. The Department also asserted that limiting Xcel's return to the long-term cost of debt also advances important policy goals. The Department explained that allowing Xcel to earn a return not exceeding the long-term cost of debt would almost certainly *exceed* the required return given the value of Xcel's limited interest. The Department asserted that using the long-term cost of debt would discourage the company from making excessive contributions above the minimum necessary threshold required by ERISA.<sup>362</sup>

208. For these reasons, the Department recommended that the Commission deny Xcel any recovery. In the alternative, the Commission should limit Xcel's recovery to no more than \$5.7 million in 2025 and \$5.4 million in 2026 using the company's long-term debt cost.<sup>363</sup>

## 2. Xcel Recommendation

209. Xcel, in turn, asserts that it is entitled to a return on the prepaid pension asset at the weighted average cost of capital. In its initial brief, however, Xcel changed its position, asserting to seeking a return at the long-term cost of debt rate.<sup>364</sup> In support of its position, Xcel made several claims:

(a) Xcel asserted that permitting it to earn a return on the full value of the prepaid pension asset (as opposed to its actual nominal or valueless interest in the asset) helps the company manage an orderly transition of employees into retirement.<sup>365</sup>

(b) Xcel also claimed there is no debate that the prepaid pension asset consists solely of shareholder supplied funds and that it is, again, entitled to a return on the full value of the prepaid pension asset.<sup>366</sup>

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<sup>359</sup> Ex. DOC-11 at 7 (Hunt Surrebuttal).

<sup>360</sup> Ex. DOC-11 at 7 (Hunt Surrebuttal).

<sup>361</sup> Ex. DOC-11 at 8 (Hunt Surrebuttal).

<sup>362</sup> Ex. DOC-11 at 8 (Hunt Surrebuttal).

<sup>363</sup> Ex. DOC-11, SDH-S-6 (Hunt Surrebuttal).

<sup>364</sup> Ex. Xcel-97 at 2 (Schrubbe Revised Witness Summary).

<sup>365</sup> Ex. Xcel-57 at 24-25 (Schrubbe Direct); Ex. Xcel-62 at 41 (Ly Direct).

<sup>366</sup> Ex. Xcel-58 at 12 (Schrubbe Rebuttal).

(c) Finally, Xcel asserted that the Department's objection to the Company earning a return on the prepaid pension asset related overfunding of the pension fund.<sup>367</sup>

210. The Department challenged each of Xcel's claims:

(a) Regarding Xcel's claim that a return on the prepaid pension asset ensures adequate benefits for retirees, the Department asserted that the value of Xcel's interest in the prepaid pension asset and the rate of return applied to it have no bearing on the benefits provided to beneficiaries. Xcel's obligations to beneficiaries are set forth in the pension plan documents and pension trust agreement.<sup>368</sup> Xcel's obligations are, moreover, governed by Employee Retirement Income Security Act ("ERISA") and federal tax law. Thus, in the Department's view, if Xcel offers defined benefit retirement benefits, then it must comply with these no matter how the prepaid pension asset is treated.

(b) The Department also challenged Xcel's claim that the prepaid pension asset consists solely of shareholder supplied funds. The Department explained that Xcel's contributions to the pension trust will be made in the ordinary course of business. The impact on shareholders is, indirect because XEI's shareholders are residual claimants. They receive what is left after the corporation pays its fixed claimants in order of priority. And they only receive such payments when the board chooses to make a distribution to them.<sup>369</sup> Thus, in most instances, the Department explained that pension trust contributions are not a shareholder contribution (for which debt or equity was raised), but a possibly foregone distribution.

(c) Lastly, the Department disagreed with Xcel's characterization of its concerns with Xcel's position. The Department clarified that its primary concern is that Xcel is attempting to earn a return on an asset that it does not fully own. Instead of a return on all excess pension trust contributions, the Department asserts that Xcel should only receive a return on a contingent remainder interest which with no or nominal value.<sup>370</sup>

### **3. ALJ Recommendation**

211. The Judge finds that the Commission should grant Xcel no return on the prepaid pension asset because the record demonstrates that Xcel holds only a contingent reversionary interest of nominal or no value for ratemaking purposes. Under ERISA and common-law trust principles, pension trust assets must be used exclusively for

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<sup>367</sup> Ex. Xcel-58 at 12 (Schrubbe Rebuttal).

<sup>368</sup> Ex. DOC-11, SDH-S-5 at 1 (Hunt Surrebuttal).

<sup>369</sup> Minn. Stat. § 302A.551, subd. 4; *see also McRitchie v. Zuckerberg*, 315 A.3d 518, 547 (Del. Ch. 2024)

<sup>370</sup> DOC Initial Br. at 63-65.

beneficiaries, and Xcel may only access residual funds after all liabilities to plan beneficiaries have been satisfied upon plan termination—a scenario Xcel does not anticipate occurring soon. This legal framework means Xcel lacks both legal and equitable title to the trust property and retains only a contingent remainder interest, which is inherently speculative and not susceptible to reliable valuation. Given these limitations, applying either the weighted average cost of capital or the long-term cost of debt rate to Xcel’s nominal or valueless interest results in no revenue requirement deficiency impact.

212. In the alternative, if the Commission determines that Xcel should earn a return on the prepaid pension asset despite its contingent and nominal interest, the Judge recommends limiting that return to Xcel’s long-term cost of debt rather than its weighted average cost of capital. This approach is appropriate because the prepaid pension asset lacks the characteristics of traditional rate base assets, which typically involve a one-time capital outlay for physical infrastructure depreciated over time. In contrast, the prepaid pension account is a fluctuating balancing account driven by timing differences between contributions and expenses. Applying the long-term cost of debt would better reflect the minimal risk associated with Xcel’s limited interest, discourage excessive contributions beyond ERISA requirements, and protect ratepayers from unnecessary costs. This method also aligns with sound regulatory policy by ensuring any return granted does not exceed what is reasonably necessary given the nature of the asset.

## **G. Cost Allocators.**

213. Cost allocators are used to assign shared costs to Xcel’s operating companies when cost causation cannot otherwise be clearly identified. In this case, the parties dispute the methodologies used in conjunction with three of Xcel’s cost allocators.

### **1. General Cost Allocator**

214. XES employees perform work that benefits multiple jurisdictions, including several states, regulated and non-regulated operations, and both the gas and electric operations in Minnesota. To account for work that cannot be directly assigned to one of these operations, Xcel must use allocators.<sup>371</sup> The allocator has three equal components based on operating company: assets, revenues, and labor. Since 2011, the Commission has required Xcel to calculate the labor component of the allocator using full-time equivalents (FTEs) hours as opposed to Xcel’s preferred Number of Employees methodology.<sup>372</sup> In this case, Xcel requests to change the labor component from full-time equivalents in each operating company to the number of employees. To support its request, Xcel argues that indirect XES costs are incurred to meet the needs of each operating company (e.g., human resource costs) rather than the work performed by the operating company’s employees.<sup>373</sup> Xcel also asserts that its preferred methodology

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<sup>371</sup> Ex. DOC-1 at 33–34 (Johnson Direct).

<sup>372</sup> *In re N. States Power Co.’s Cost Allocation Procedures and General Allocator, E,G-002/AI-10-690*, ORDER REQUIRING CHANGE IN GENERAL ALLOCATOR AND REQUIRING FILINGS (Mar. 15, 2011) (eDocket No. [20113-60362-01](#)).

<sup>373</sup> Ex. Xcel-49 at 16–17 (Doyle Direct).

provides a more stable, consistent, and simpler metric for assigning service company employee costs.<sup>374</sup>

215. The Department, in turn, recommended that the Commission reject Xcel's proposed change. The Department asserted that Xcel has not alleviated the concerns identified by the Commission.<sup>375</sup> Following Xcel's 2008 rate case, the Commission investigated Xcel's three-part allocation method, which used the number of employees as its labor component.<sup>376</sup> The Commission ultimately ordered Xcel to use FTEs instead of the number of employees.<sup>377</sup> The Commission explained that using the number of employees "results in no labor-related costs being allocated to unregulated subsidiaries that do not have their own payrolls. This is unreasonable on its face, since no business can have a labor cost of zero."<sup>378</sup> The Commission also noted that "allocating the full costs of each employee to the subsidiary on whose payroll he or she appears overstates the labor costs of that subsidiary and understates the labor costs of any other subsidiary for whose benefit the employee occasionally performs services."<sup>379</sup>

216. The Department also disputed that Xcel's claim that indirect XES costs are incurred on an operating company basis. The Department asserted that those costs should be attributed to the operating company for whom the work is performed, not the company where the worker is formally employed. The Department pointed out that taken to the logical extreme that Xcel's position leads to absurd results. For example, if an NSPM employee devotes 50% of her time to performing work for NSPW, NSPM customers would be fully responsible for the indirect XEI costs rather than splitting them with NSPW customers. This problem is particularly acute, as the Commission has previously recognized, with XEI's small subsidiaries, which may have no employees at all, relying instead on the part-time services of employees of other subsidiaries.<sup>380</sup> In contrast, the FTE methodology resolves the Commission's concern that the Number of Employees methodology over allocates costs to the operating company where the worker

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<sup>374</sup> Ex. Xcel-49 at 16–17 (Doyle Direct).

<sup>375</sup> Ex. DOC-2 at 10–11 (Johnson Surrebuttal).

<sup>376</sup> See *In re N. States Power Co.'s Cost Allocation Procedures and General Allocator*, E,G-002/AI-10-690, ORDER REQUIRING CHANGE IN GENERAL ALLOCATOR AND REQUIRING FILINGS (Mar. 15, 2011) (eDocket No. [20113-60362-01](#)).

<sup>377</sup> *In re N. States Power Co.'s Cost Allocation Procedures and General Allocator*, E,G-002/AI-10-690, ORDER REQUIRING CHANGE IN GENERAL ALLOCATOR AND REQUIRING FILINGS at 4 (Mar. 15, 2011) (eDocket No. [20113-60362-01](#)).

<sup>378</sup> *In re N. States Power Co.'s Cost Allocation Procedures and General Allocator*, E,G-002/AI-10-690, ORDER REQUIRING CHANGE IN GENERAL ALLOCATOR AND REQUIRING FILINGS at 1-2 (Mar. 15, 2011) (eDocket No. [20113-60362-01](#)).

<sup>379</sup> *In re N. States Power Co.'s Cost Allocation Procedures and General Allocator*, E,G-002/AI-10-690, ORDER REQUIRING CHANGE IN GENERAL ALLOCATOR AND REQUIRING FILINGS at 1-2 (Mar. 15, 2011) (eDocket No. [20113-60362-01](#)).

<sup>380</sup> *In re N. States Power Co.'s Cost Allocation Procedures and General Allocator*, E,G-002/AI-10-690, ORDER REQUIRING CHANGE IN GENERAL ALLOCATOR AND REQUIRING FILINGS at 1 (Mar. 15, 2011) (eDocket No. [20113-60362-01](#)).

is employed and under-allocates to the operating company that is the beneficiary of the employees' work.<sup>381</sup>

217. The Judge recommends that the Commission reject Xcel's request to switch the labor component of its general allocator from FTE hours to the number of employees because the record shows that the proposed methodology would reintroduce allocation distortions the Commission previously found unreasonable. Using the number of employees overstates labor costs for subsidiaries where employees are formally employed and understates costs for subsidiaries that benefit from their work, particularly smaller entities with no payroll. In contrast, the FTE methodology accurately reflects the actual distribution of labor across operating companies and ensures that indirect costs are allocated based on work performed rather than employment status. Xcel has not provided evidence that its proposed change resolves these longstanding concerns, and its arguments about simplicity and stability do not outweigh the need for fairness and accuracy in cost allocation.

## **2. Interchange Agreement Allocator**

218. Although Xcel has separate operating companies for Minnesota and Wisconsin, the two companies share generation and transmission assets.<sup>382</sup> To assign costs to the two jurisdictions, Xcel relies on cost and revenue allocators memorialized in an interchange agreement subject to annual review and approval by the Federal Energy Regulatory Commission ("FERC").<sup>383</sup> In May 2025, FERC approved Xcel's proposed interchange agreement for 2025.<sup>384</sup> The Department recommended that the Commission require Xcel to incorporate the FERC-approved agreement into its interchange allocator. The Department reasoned that using the most up-to-date allocator agreement would be consistent with the Commission's decision in Xcel's last rate case and consistent with the commonsense principle that a newer up-to-date allocator is better than an older, less up-to-date allocator.<sup>385</sup>

219. Xcel opposed the Department's recommendation. Xcel reasoned that incorporating the FERC-approved agreement would amount to selectively changing one component of the Interchange Agreement billings between NSPM and NSPW.<sup>386</sup> Xcel also asserted that using the 2025 allocator agreement for 2026 is inappropriate because the 2025 allocator is not representative of the 2026 test year cost of service.<sup>387</sup>

220. The Department was unpersuaded by either of Xcel's arguments:

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<sup>381</sup> 2021 Rate Case Order at 108.

<sup>382</sup> Ex. DOC-1 at 30 (Johnson Direct).

<sup>383</sup> Ex. DOC-1 at 30 (Johnson Direct).

<sup>384</sup> Ex. DOC-1, MAJ-D-4 at 1 (Johnson Direct)

<sup>385</sup> 2021 Rate Case Order at 109 (adopting the Department's recommendation to use updated allocators "based on the most contemporary evidence in the record.").

<sup>386</sup> Ex. Xcel-19 at 61 (Halama Rebuttal).

<sup>387</sup> Ex. Xcel-19 at 61 (Halama Rebuttal).

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(a) The Department noted Xcel’s claim that using the 2025 interchange agreement allocator amounts to a selective change implies that other components of the Interchange Agreement billings also require change. But Xcel failed to identify additional changes despite an invitation to provide other updates.<sup>388</sup> The Department also asserted that Xcel’s position similarly ignores the Commission’s prior decisions. In Xcel’s last rate case, the Commission explained that although Xcel had an opportunity to update other components of the allocator, the company did not offer any offsetting adjustments. In adopting the Department’s recommendation, the Commission explained, “The Department cannot be faulted for acting on the basis of the record before it.”<sup>389</sup> Here, Xcel again had an opportunity to provide other updates but did not offer any.<sup>390</sup> Given Xcel’s failure to offer other updates, the result should be the same as Xcel’s last rate case – updating the interchange demand allocator to the most recent data available.

(b) The Department further questioned the logic of Xcel’s other argument that the 2025 allocator is not representative of 2026 given that Xcel’s currently proposes to rely on even older information.<sup>391</sup> In support of its position, the Department asserted that the Commission has expressed a preference for recent actual data because it is more likely to reflect recent trends, representative customer behavior, and relevant economic conditions than older data or speculative forecasts.<sup>392</sup> Applying that logic here, the Department asserted that the Commission would be best served by relying on allocator derived from the three most recent years of data as opposed to two years of data and one year of forecasting.

221. The Judge recommends that the Commission adopt the Department’s recommendation to update Xcel’s Interchange Agreement allocator because it ensures reliance on the most current and accurate data, consistent with Commission precedent and sound ratemaking principles. FERC has approved Xcel’s 2025 interchange agreement, and incorporating this updated allocator better reflects recent operating conditions than using outdated data. Xcel’s arguments against the update are unpersuasive, as the Commission has previously determined that improvements supported by the record should not be rejected simply because other adjustments were not proposed. Updating the allocator promotes fairness, transparency, and alignment with prior Commission decisions.

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<sup>388</sup> Ex. DOC-2 at 6 (Johnson Surrebuttal).

<sup>389</sup> 2021 Rate Case Order at 109.

<sup>390</sup> Ex. DOC-2 at 6 (Johnson Surrebuttal).

<sup>391</sup> Ex. Xcel-18, BCH-D-17 at 2 (Halama Supplemental Direct).

<sup>392</sup> See, e.g., *In re Appl. by Minn. Power for Auth. to Increase Rates for Elec. Serv.*, Docket No. E-015/GR-21-335, FINDINGS OF FACT, CONCLUSIONS, & ORDER at 17 (Feb. 28, 2023) (eDocket no. [20232-193486-01](#)) (adopting *In re Appl. by Minn. Power for Auth. to Increase Rates for Elec. Serv.*, Docket No. E-015/GR-21-335, FINDINGS OF FACT, CONCLUSIONS OF LAW, & RECOMMENDATIONS at 73 (Sept. 1, 2022) (eDocket no. [20229-188786-01](#))).

### 3. Indirect Wildfire Allocator

222. In addition to other wildfire mitigation costs, Xcel incurs some wildfire costs at the XES-level that cannot be directly assigned to an operating company such as Public Service Company of Colorado or Southwest Public Service Company.<sup>393</sup> In those cases, Xcel proposes to allocate those costs based on each utility operating company's size (using total plant ratio) relative to the entire company.<sup>394</sup> For the 2025 and 2026 test years, Xcel asserts that it will incur \$16.5 million and \$19.8 million respectively that cannot be directly allocated to a particular operating company.<sup>395</sup> Using Xcel's preferred total plant ratio methodology, Minnesota electric customers are responsible for \$3.3 million in 2025 and \$4.3 million in 2026.<sup>396</sup>

223. The Department objected to Xcel's use of the total plant ratio methodology to assign these indirect costs. The Department asserted that Xcel's preferred methodology wrongly assumes that its jurisdictions have equivalent wildfire risks even though wildfire risk in Xcel's Colorado and Texas jurisdictions is 2.4 to 7.6 times higher than in Minnesota.<sup>397</sup> To better reflect cost causation principles, the Department recommended that the Commission require indirect wildfire costs to be allocated using the same allocations that Xcel used for costs that could be directly allocated to a service company. For example, if NSPM is responsible for only 10% of XES's direct wildfire costs, then it would only be allocated 10% of the indirect wildfire costs. Since Xcel was unwilling to provide the impact of the Department's recommended methodology the Department recommended removing all indirect wildfire costs, reducing Xcel's revenue requirement by \$1.7 million in 2025 and \$1.8 million in 2026.<sup>398</sup>

224. The Judge recommends that the Commission adopt the Department's recommendation regarding indirect wildfire costs because it avoids unfairly burdening Minnesota customers with risks they do not face. Xcel's proposed total plant ratio assumes equal wildfire risk across jurisdictions, despite evidence that Colorado and Texas face risks several times higher than Minnesota. Using the same allocation method applied to direct wildfire costs ensures consistency, fairness, and a more accurate assignment of responsibility. But since Xcel was unwilling to provide the impact of the Department's recommended methodology, the Department's alternative recommendation of removing all indirect wildfire costs is appropriate and should be adopted by the Commission.

#### H. Distribution System Vegetation Management.

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<sup>393</sup> Ex. DOC-1 at 42 (Johnson Direct).

<sup>394</sup> Ex. DOC-1 at 43–44 (Johnson Direct).

<sup>395</sup> Ex. DOC-1 at 44 (Johnson Direct).

<sup>396</sup> Ex. DOC-1 at 44 (Johnson Direct).

<sup>397</sup> Ex. DOC-9 at 14 (Borden Direct).

<sup>398</sup> Ex. DOC-2 at 22 (Johnson Surrebuttal).

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225. Xcel proposes annual budgets of \$37.4 million in 2025 and \$40.9 million in 2026 for distribution system vegetation management.<sup>399</sup> Vegetation management refers to controlling the growth of and removing trees, shrubs, and other plants that grow too close to electrical lines and other utility infrastructure.<sup>400</sup> The Department challenged the reasonableness of Xcel's proposed budgets because the 2025 budget is 22% greater than Xcel's 2024 actual spending and the 2026 budget is 9% greater than the 2025 proposal.<sup>401</sup> And Xcel has underspent its vegetation management budgets every year since at least 2022, as shown below.<sup>402</sup>

	2022	2023	2024	Total
Approved Budget	\$43.4 million	\$46.0 million	\$46.2 million	\$135.6 million
Actual Spending	\$35.8 million	\$28.6 million	\$30.7 million	\$95.1 million
Difference	\$7.6 million	\$17.4 million	\$15.5 million	\$40.5 million

226. The Department also looked at Xcel's actual spending during the 2025 test year. Through September 2025, Xcel had only spent \$20.1 million. Annualizing this spending, the Department found that Xcel was only on pace to spend \$26.8 million for the entire year.<sup>403</sup> Citing this evidence, the Department concluded that Xcel's actual spending has varied significantly and that the company cannot accurately forecast its costs.<sup>404</sup>

227. Given these deficiencies, the Department recommended that the Commission should approve 3% inflationary increases over 2024 actual spending for 2025 and 2026.<sup>405</sup> These adjustments would result in budgets of \$31.6 million in 2025 and \$32.6 million in 2026, reducing Xcel's revenues requirement by \$5.8 million and \$8.3 million in the respective test years.<sup>406</sup>

228. In response, Xcel asserted that some variances in prior years were attributable to storm restoration work.<sup>407</sup> Xcel further asserted that 2025 spending was less than expected due to capitalization of some work.<sup>408</sup> Lastly, Xcel argued that its overall distribution O&M budget balances out in totality thereby rendering the distribution vegetation management component reasonable.<sup>409</sup>

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<sup>399</sup> Ex. DOC-7 at 16 (Uphus Direct).

<sup>400</sup> Ex. DOC-7 at 16 (Uphus Direct).

<sup>401</sup> Ex. DOC-7 at 17 (Uphus Direct).

<sup>402</sup> Ex. DOC-7 at 19 (Uphus Direct).

<sup>403</sup> Ex. DOC-7 at 19 (Uphus Direct).

<sup>404</sup> Ex. DOC-8 at 11 (Uphus Surrebuttal).

<sup>405</sup> Ex. DOC-7 at 20 (Uphus Direct).

<sup>406</sup> Ex. DOC-7 at 20 (Uphus Direct).

<sup>407</sup> Ex. Xcel-35 at 47 (Mensen Rebuttal).

<sup>408</sup> Ex. DOC-8, AAU-S-1 at 3 (Uphus Surrebuttal).

<sup>409</sup> Xcel Initial Br. at 75.

229. The Department was unconvinced by Xcel’s response. The Department argued that Xcel had failed to justify the reasonableness of its proposed budget by citing the totality of the distribution O&M budget. In the Department’s view, Xcel’s position conceded that the distribution vegetation management budget was inflated by suggesting that rest of its distribution O&M budget might be inaccurate too. In the Department’s view, it would be inappropriate for the Commission to accept Xcel’s distribution vegetation management budget as an accounting “plug” number to reconcile discrepancies plaguing the overall distribution O&M budget.<sup>410</sup>

230. The Judge recommends that the Commission adopt the Department’s recommendation for the Distribution System Vegetation Management budget because Xcel has consistently underspent its approved budgets and failed to justify its proposed increases of 22% for 2025 and 9% for 2026. Actual spending trends, including Xcel’s pace in 2025, indicate that the company has not accurately forecast costs. Approving inflationary adjustments over 2024 actual spending ensures reasonable rates, aligns with historical spending patterns, and prevents inflated budgets from serving as accounting “plug” numbers.

#### **I. Outside Services.**

231. Xcel proposed charging ratepayers \$26.8 million in 2025 and \$25.8 million in 2026 to cover the expected costs of professional services such as legal, accounting, or managerial assistance.<sup>411</sup> These services are grouped together into FERC Account 923.<sup>412</sup> Commission rules require utilities to conform to FERC’s uniform system of accounts.<sup>413</sup>

232. Xcel does not budget by FERC account and generally finds it to be “an unsound way to analyze the Company’s expenses.”<sup>414</sup>

233. These proposals amount to an 41.6% increase over Xcel’s 2022 to 2024 average actual expenses for 2025, and a 36.6% increase for 2026.<sup>415</sup> The company’s outside service expenses set in its last rate case exceeded its actual expense every year

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<sup>410</sup> *In Appl. of Interstate Power Co.*, 500 N.W.2d 501, 504 (Minn. Ct. App. 1993) (“[I]f the petitioner’s evidence is inaccurate, the utility has failed to meet its burden of proof, and the MPUC will either deny the rate increase or make “appropriate adjustment” to the utility’s proposal.”)

<sup>411</sup> Ex. DOC-5 at 14 (Golden Direct).

<sup>412</sup> 18 C.F.R. § 367.9230(a).

<sup>413</sup> Minn. R. 7825.0300, subp. 2 (referring to the FPC (Federal Power Commission), FERC’s predecessor); Ex. DOC-6 at 16 (Golden Surrebuttal).

<sup>414</sup> Ex. Xcel-28 at 19 (Robinson Rebuttal).

<sup>415</sup> Ex. DOC-5 at 16 (Golden Direct).

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from 2022 through 2024.<sup>416</sup> During those three years, Xcel collected \$5.6 million more from ratepayers than it spent in FERC Account 923.<sup>417</sup>

234. When asked by the Department to explain any difference of 5% or more between the forecasted amounts and actual expenses from 2022 through 2024, Xcel pointed solely to unexpectedly low legal expenses in 2022 and 2023.<sup>418</sup>

235. The Department also asked Xcel to explain any difference of 5% or more when comparing 2024 actual expenses to the 2025 test year and 2026 plan year amounts.<sup>419</sup> Xcel stated that the 2025 test year and 2026 plan year outside legal service O&M expense was determined using a historical average based on 2017–2023 actual expenses, noting that the “historically low outside legal services costs in 2024 ... was not expected.”<sup>420</sup> Xcel also stated that “Technology Services, Enterprise Security Services and the initiation of the wildfire mitigation program” were the other key drivers of its 2025 test year expense.<sup>421</sup> Xcel provided no other information in response to the Department’s request.<sup>422</sup>

236. Based on Xcel’s history of over-forecasting this expense, the lack of any meaningful explanation for the large increase over the 2024 actual expenses, and the first quarter actual expenses in 2025 trending even lower than its 2024 actuals, the Department recommended setting the 2025 test year expense at Xcel’s 2024 actual expense, increased by 7.5%, and increasing that amount another 7.5% for the 2026 plan year.<sup>423</sup> The Department chose a 7.5% inflator based on the most recent Bureau of Labor Statistics’ Consumer Price Index, which cites a 7.5% annual percentage change in CPI for “Energy services – Electricity.”<sup>424</sup>

237. In response to the Department’s analysis, Xcel asserted it had “provided ample information elsewhere” supporting its requested budget.<sup>425</sup> Xcel did not provide any specific references in support of this assertion.<sup>426</sup>

238. Xcel also argued that it is “inappropriate” to “focus” on FERC Account 923 because “[b]udget accuracy does not mean that every budgeted dollar is spent in exactly the same way that it was forecast to be spent.”<sup>427</sup> Xcel stated that this was particularly

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<sup>416</sup> Ex. DOC-5 at 15 (Golden Direct).

<sup>417</sup> Ex. DOC-5 at 15 (Golden Direct).

<sup>418</sup> Ex. DOC-5 at 15, ARG-D-4 at 1 (Golden Direct).

<sup>419</sup> Ex. DOC-5 at 15, ARG-D-4 at 1 (Golden Direct).

<sup>420</sup> Ex. DOC-5 at 15, ARG-D-4 at 1 (Golden Direct).

<sup>421</sup> Ex. DOC-5 at 15, ARG-D-4 at 2 (Golden Direct).

<sup>422</sup> See Ex. DOC-5 at 15, ARG-D-4 at 1–2 (Golden Direct).

<sup>423</sup> Ex. DOC-5 at 17 (Golden Direct).

<sup>424</sup> Ex. DOC-5 at 17 (Golden Direct).

<sup>425</sup> Ex. Xcel-28 at 23 (Robinson Rebuttal).

<sup>426</sup> See Xcel-28 at 23 (Robinson Rebuttal).

<sup>427</sup> Xcel-28 at 20 (Robinson Rebuttal).

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true for FERC Account 923 because it is associated with 17 different business areas.<sup>428</sup> Xcel argued that its position was supported by the Commission’s decision in Minnesota Power’s 2021 rate case.<sup>429</sup>

239. In Minnesota Power’s 2021 rate case, the utility advanced the same position Xcel does here that it is “not appropriate” to consider the different expenses that go into FERC Account 923 in isolation.<sup>430</sup> The Commission’s order found that “[t]he expenses allocated to each of these [FERC] accounts are reasonable for the purpose of rate setting.”<sup>431</sup> The Department argued that if expenses allocated to these accounts can be found reasonable, they can also be found unreasonable, unsupported, or excessive.<sup>432</sup> The Commission’s order was not based on the reasonableness of using FERC Account 923 for analysis, but case-specific factors, such as the impact of the COVID-19 pandemic on 2020 expenses.<sup>433</sup>

240. The Judge finds it is reasonable to focus on FERC Account 923 when analyzing outside service expenses. The Commission’s rules explicitly require utilities to conform to FERC’s uniform system of accounts.<sup>434</sup> Grouping different expenses together into FERC Account 923 would be expected to decrease natural variation between forecasted expenses and actual expenses as above-budget spending in some categories would be offset by below-budget spending in other categories.

241. The Judge finds that Xcel has not met its burden of proof to justify the substantial increase in outside service expenses that it is seeking for the 2025 test year and 2026 plan year. Xcel has a history of over-forecasting its outside service expense. Xcel provided isolated and incomplete information in support of its request.

242. For example, Xcel argues that it appropriately set its legal outside services budget based on its 2017–2023 actual expenses, but did not identify how it generated the test year expense from those data points or what the overall outside services expense forecast would be if it used the same method for the other business areas that go into FERC Account 923. Nor did Xcel identify whether any of the years from 2017 to 2023 had unusually high legal expenses that should also rightfully be excluded using Xcel’s rationale for omitting its 2024 outside legal spending as non-representative.

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<sup>428</sup> Xcel-28 at 20 (Robinson Rebuttal).

<sup>429</sup> Xcel Initial Br. at 123.

<sup>430</sup> *In re Appl. of Minn. Power for Auth. to Increase Rates for Elec. Serv. in Minn.*, MPUC Docket No. 21-335, FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER at 24 (Sept. 1, 2022) (eDocket No. [20229-188786-01](#)) (2021 MP RATE CASE ORDER)

<sup>431</sup> 2021 MP RATE CASE ORDER at 25.

<sup>432</sup> Ex. DOC-6 at 18 (Golden Surrebuttal).

<sup>433</sup> See 2021 MP RATE CASE ORDER at 23–25.

<sup>434</sup> Minn. R. 7825.0300, subp. 2 (referring the FPC (Federal Power Commission), FERC’s predecessor); Ex. DOC-6 at 16 (Golden Surrebuttal).

243. The Judge finds that the Department’s proposal to generate the 2025 test year expense by applying a 7.5% inflator to the company’s 2024 actual expense, and the 2026 plan year expense by applying a 7.5% inflator to the 2025 test year expense, is just and reasonable. The 7.5% inflator is based on the most recent available CPI data, and is specific to annual percentage change in “Energy services – Electricity” costs.<sup>435</sup> The Judge recommends that the Commission’s adopt the Department’s proposed expense.

#### **J. Property Taxes.**

244. Xcel requested recovery of its forecasted property tax expense for the 2025 test year and 2026 plant year, subject to a true-up mechanism. Xcel initially forecasted \$182.1 million for 2025, and an updated forecast of \$184.2 million.<sup>436</sup> For 2026, Xcel initially forecasted \$194.3 million, and provided an updated forecast of \$195.4 million.<sup>437</sup> The forecasts for both years were updated to reflect the Company’s settlement with the Department of Revenue for its 2025 property tax valuation, and property tax bills that allowed the Company to calculate its 2024 actual effective tax rate.<sup>438</sup>

245. Xcel proposed to continue its current property tax true-up mechanism, which was initially authorized in its 2015 rate case and subsequently reapproved in its 2021 rate case.<sup>439</sup>

246. The Department initially recommended a 5% cap on surcharges for property tax expense.<sup>440</sup> After further review, the Department subsequently agreed with Xcel’s proposal to continue the property tax expense true-up in its current form.<sup>441</sup>

247. Although customers are ultimately refunded for over-payments through the true-up mechanism, over forecasted property tax expenses result in ratepayers paying too much in their base rates.<sup>442</sup> As a result of Xcel’s overestimation of its property tax expense, it collected \$102.5 million in excess property tax expense from ratepayers from 2017 through 2024 that had to be returned via true-up refunds.<sup>443</sup>

248. The Department argued that Xcel did not support its forecast for 2025 and 2026.<sup>444</sup> The Department was not persuaded by Xcel’s position that forecasted increases are explained by anticipated increases in plant and income.<sup>445</sup> The Department compared

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<sup>435</sup> Ex. DOC-5 at 17 (Golden Direct).

<sup>436</sup> Ex. Xcel-52 at 3 (Kowalowski Rebuttal).

<sup>437</sup> Ex. Xcel-52 at 3 (Kowalowski Rebuttal).

<sup>438</sup> Ex. Xcel-52 at 3–5 (Kowalowski Rebuttal).

<sup>439</sup> Ex. Xcel-51 at 22 (Kowalowski Direct).

<sup>440</sup> Ex. DOC-23 at 13 (Jones Direct).

<sup>441</sup> Ex. DOC-24 at 4–5 (Jones Surrebuttal).

<sup>442</sup> Ex. DOC-24 at 12 (Jones Surrebuttal).

<sup>443</sup> Ex. DOC-23 at 13 (Jones Direct).

<sup>444</sup> Ex. DOC-24 at 12–13 (Jones Surrebuttal).

<sup>445</sup> Ex. DOC-23 at 8 (Jones Direct).

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Xcel's year-over-year changes in net plant compared to property tax expense from 2020 through the 2026 forecast, and noted that there did not seem to be any direct correlation between the two figures.<sup>446</sup> The Department also noted that Xcel's history of overestimating its property tax expense was consistent, with its forecast exceeding its actual expense every year since 2017.<sup>447</sup>

249. Given Xcel's history of over-estimating property tax expenses and its opinion that Xcel did not adequately support its 2025 and 2026 forecast, the Department reviewed year-over-year changes in the Company's average property tax increase from 2020 to 2024. The Department found that the average increase in property taxes for the MN Electric Jurisdiction ranged from -5.18% to 6.35%, with an average increase of 0.47%.<sup>448</sup> The Department recommended applying a 2% increase to the 2024 actual expense for the 2025 test year expense, and applying an additional 2% increase for the 2026 plan year expense.<sup>449</sup> This resulted in updated property tax expenses of \$178,908,000 and \$182,486,160, respectively.<sup>450</sup>

250. Xcel disagreed with the Department's reasoning and recommendation. Xcel argued that it was irrelevant to consider the relationship between net plant, income, and property tax in prior years because those variables interact with other variables such as the Department of Revenue's Cap Rates and weightings, and the effective local tax rates, in ways that are often partially offsetting.<sup>451</sup> Xcel argued that it explained its forecast methodology and data inputs in great detail, and this information was not adequately considered in the Department's analysis.<sup>452</sup>

251. Xcel argued that the Department showed there is "no discernable trend in the Company's property tax expense."<sup>453</sup> The Company provided detailed explanations of its methodology for forecasting the company's property tax expense.<sup>454</sup> The Company has used the same variables to generate its 2016, 2019, 2020, and 2022 test years forecasts in past rate cases.<sup>455</sup>

252. The detailed explanations demonstrate that each year's property tax is affected by the interplay of several factors, which often offset each other in a manner that may not be predictive of the future. Xcel's argument that it would be unreasonable to adopt the Department's method of setting a baseline by applying an increase that is a

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<sup>446</sup> Ex. DOC-23 at 9 (Jones Direct).

<sup>447</sup> Ex. DOC-23, HDJ-D-3 (Jones Direct).

<sup>448</sup> Ex. DOC-23 at 10 (Jones Direct).

<sup>449</sup> Ex. DOC-23 at 11 (Jones Direct).

<sup>450</sup> Ex. DOC-24 at 10 (Jones Surrebuttal).

<sup>451</sup> Ex. Xcel-52 at 12 (Kowalowski Rebuttal).

<sup>452</sup> Ex. Xcel-52 at 13–15 (Kowalowski Rebuttal).

<sup>453</sup> Ex. Xcel-52 at 15 (Kowalowski Rebuttal).

<sup>454</sup> Ex. Xcel-51 at 4–13 (Kowalowski Direct).

<sup>455</sup> Ex. Xcel-51 at 10 (Kowalowski Direct).

midpoint of actual recent yearly increases to the Company's actual 2024 property tax expense is unavailing.

253. The Judge finds that continuing the property tax true-up mechanism established in Xcel's 2015 rate case reasonably balances ratepayer and shareholder interests by ensuring that Xcel neither over nor under recovers its property tax expense.

254. The Judge finds the company has not met its burden to demonstrate that its baseline property tax expense is reasonable. Because Xcel over-recovered property tax expense each year between 2017 and 2024—collecting an excess of \$102.5 million from ratepayers and then returning it through the true-up—the reliability of the Company's property tax forecasting methodology is doubtful. The Company's forecasting methodology appears to favor over-recovery. That Xcel now forecasts an increase for 2025 that exceeds the increase in all but one year since 2017, and an increase in 2026 that exceeds anything in the record, must be viewed in light of the demonstrated performance of the Company's forecast methodology. These significant increases in property tax expense require greater justification than has been shown on this record.

255. The Judge finds the Department's alternative baseline property tax expense is reasonably grounded in historical data and provides a more realistic baseline for Xcel's property tax true-up. A more accurate baseline will provide rate stability to customers by mitigating wide swings in refunds and surcharges. The Judge recommends the Commission adopt the Department's proposed property tax forecast in setting property tax expense in this proceeding.

#### **K. Transmission O&M Expense.**

256. Xcel requested \$18.9 million in Transmission O&M for the 2025 test year and \$19.4 million for the 2026 plan year.<sup>456</sup> 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.<sup>457</sup>

257. The company's 2025 budget is 9% higher than its 2024 forecast.<sup>458</sup> 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.<sup>459</sup> The 2026 forecast is 2% higher than the 2024 forecast.<sup>460</sup>

258. In Xcel's last rate case, it forecasted a modest increase in Transmission O&M spending each year from 2022 through 2024.<sup>461</sup> The company's actual

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<sup>456</sup> Ex. Xcel-42 at 78 (Berklund Direct); Ex. DOC-5, ARG-D-1 (Golden Direct).

<sup>457</sup> Ex. Xcel-42 at 78 (Berklund Direct).

<sup>458</sup> Ex. Xcel-42 at 81 (Berklund Direct).

<sup>459</sup> Ex. Xcel-42 at 81 (Berklund Direct).

<sup>460</sup> Ex. Xcel-42 at 81 (Berklund Direct).

<sup>461</sup> Ex. DOC-5 at 6 (Golden Direct).

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Transmission O&M expenses, however, decreased each year.<sup>462</sup> As a result of Xcel's overestimation of its Transmission O&M expense, it collected \$11.4 million more from ratepayers in rates than it spent.<sup>463</sup>

259. The Department asked Xcel to explain the difference between its test year Transmission O&M forecasts and actual expenses. Xcel stated that the expenses were lower than forecasted due to "internal reorganizations coupled with cost saving measures."<sup>464</sup> The Department argues that the expenses set in this rate case should reflect the ongoing nature of these cost reductions.<sup>465</sup> The Department noted that the savings from reorganizational shifts identified by Xcel did not fully explain the variance between the company's forecasts and its actual expenses, leaving \$0.9 million in 2023 and \$2.6 million in 2024 unexplained.<sup>466</sup>

260. The Department also noted that Xcel argued that even though its Transmission O&M expenses have declined annually from 2022 through 2024, its forecasted increase for 2025 and 2026 is driven by increases in estimated internal labor costs.<sup>467</sup> But the company's internal labor costs also declined every year from 2022 through 2024.<sup>468</sup>

261. Based on the consistently declining actual Transmission O&M expenses, and Xcel's insufficient explanation in support of its requested increase, the Department recommended setting the Transmission O&M expense at the company's actual 2024 Transmission O&M expense.<sup>469</sup>

262. Xcel asserted that its 2025 test year and 2026 plan year forecasts already incorporated the cost-savings that resulted from its reorganization.<sup>470</sup> It stated that the remaining difference between the company's actual expenses and its forecast was due to reduced O&M labor split rates, which is said was already taken into consideration in developing its 2025 and 2026 forecasts.<sup>471</sup> Xcel argued that its forecasting is accurate, stating that its actual 2024 Transmission O&M expenses were only \$0.1 million higher than forecasted.<sup>472</sup>

263. After reviewing Xcel's response, the Department noted that even after accounting for the reorganization, the company's actual Transmission O&M expenses for

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<sup>462</sup> Ex. DOC-5 at 6 (Golden Direct).

<sup>463</sup> Ex. DOC-5 at 6 (Golden Direct).

<sup>464</sup> Ex. DOC-5 at 7 (Golden Direct).

<sup>465</sup> Ex. DOC-5 at 7 (Golden Direct).

<sup>466</sup> Ex. DOC-5 at 7 (Golden Direct).

<sup>467</sup> Ex. DOC-5 at 8 (Golden Direct).

<sup>468</sup> Ex. DOC-5 at 8 (Golden Direct).

<sup>469</sup> Ex. DOC-5 at 8 (Golden Direct).

<sup>470</sup> Ex. Xcel-43 at 4–5 (Berklund Rebuttal).

<sup>471</sup> Ex. Xcel-43 at 5 (Berklund Rebuttal).

<sup>472</sup> Ex. Xcel-43 at 6 (Berklund Rebuttal).

2023 and 2024 were still \$3.5 million below its forecast.<sup>473</sup> The Department also noted that annualizing Xcel's actual 2025 spending to date resulted in a projected 2025 actual expense of \$17.07 million, far less than its forecasted expense of \$18.9 million and less than the Department's recommendation of \$17.4 million.

264. The Judge finds that Xcel has not supported its requested Transmission O&M expenses for 2025 and 2026. Xcel over-forecasted its expense each year from 2022 through 2024, and its actual expenses decreased each year. While Xcel's 2024 forecast was only \$0.1 million off its actual NSPM total expense, the company's actual \$17.4 million expense for the Minnesota electric jurisdiction, net of interchange, was \$6.5 million below its forecast expense—an inaccuracy of significant size that merits meaningful explanation.<sup>474</sup>

265. The Judge finds that the Department's recommendation is reasonable. Its proposal to use Xcel's actual 2024 Transmission O&M expenses strikes a reasonable balance between the clear downward trend in expenses the company experienced from 2022 through 2024 with the modest increases in expected costs the company identified related to base pay increases, line inspections, and materials expenses. The annualized actual 2025 expense also supports the Department's proposal, indicating that expenses may continue trending downward and do not appear to be increasing relative to 2024. The Judge recommends that the Commission adopt the Department's proposed \$17.4 million Transmission O&M expense for 2025 and 2026.

#### **L. Liquidated Damages Revenue.**

266. Xcel contracts with third parties to maintain and operate its wind generation facilities.<sup>475</sup> Some of these agreements require the contractors to pay Xcel liquidated damages when these facilities experience more downtime than contemplated.<sup>476</sup> Xcel routinely receives payments under these agreements. Between 2022 and 2025, Xcel received between \$700,000 and \$4.8 million.<sup>477</sup> Some, but not all of these revenues are returned to customers through the company's Renewable Energy Standard (RES) rider.<sup>478</sup>

267. State law requires that rates be based on a representative "12-month" test year.<sup>479</sup> The purpose of test-year concept is to provide a "snapshot" of the utility's likely costs and revenues.<sup>480</sup> Here, Xcel has received liquidated damage payments every year

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<sup>473</sup> Ex. DOC-6 at 11 (Golden Surrebuttal).

<sup>474</sup> Ex. DOC-5, ARG-D-2 at 2 (Golden Direct).

<sup>475</sup> Ex. Xcel-45 at 60 (Capra Direct).

<sup>476</sup> Ex. Xcel-45 at 60 (Capra Direct).

<sup>477</sup> Ex. DOC-2 at 18 (Johnson Surrebuttal).

<sup>478</sup> *Id.* at 15; Ex. Xcel-46 at 10-11 (Capra Rebuttal).

<sup>479</sup> Minn. R. 7825.3100, subp. 17 (2025).

<sup>480</sup> *In re Minn. Power's Appl. for Auth. to Change Elec. Serv. Rates in Minn.*, Docket No. E-015/GR-94-001, 1994 WL 777132, at \*30 (Nov. 22, 1994).

since 2022.<sup>481</sup> Nor does the Company deny that it is likely to receive them in the future.<sup>482</sup> As a result, the Department argued it would be inconsistent with the test-year concept to categorically exclude liquidated damages entirely. Instead, the Department recommended that the Commission include about \$945,000 in liquidated damages revenue in both test years.<sup>483</sup> As shown in the table below, this amount reflects the average damage payment revenue, excluding revenue already returned through the RES rider.<sup>484</sup>

Year	Amount
Total Payments 2022-2025	\$10,800,026
Amounts Returned via RES Rider	\$7,017,249
Remaining Revenue 2022-2025	\$3,782,777
2022-2024 Average	\$945,694

268. In response, Xcel argued that it is inappropriate to include a historical average of liquidated damage amounts in rates because the Company already refunds a portion of these liquidated damages to customers and because the amount of liquidated damages that the Company receives is highly variable such that these past amounts cannot be used to estimate future damage payments. Liquidated damage amounts are highly variable because there are several factors that can contribute to a wind facility not meeting its expected energy production.<sup>485</sup>

269. The Judge recommends that the Commission adopt the Department's recommendation to include \$945,000 in liquidated damages revenue in each test year because doing so aligns with the test-year principle and reflects revenues Xcel routinely receives. The record shows Xcel has collected liquidated damages every year since 2022 and is likely to continue doing so. Using a historical average, net of amounts already refunded through the RES rider, provides a reasonable and representative estimate while preventing unjustified exclusion of recurring revenues.

#### **M. Board of Director Expense.**

270. Xcel is seeking to recover over \$2.5 million in compensation for XEI's board of directors over the multi-year rate plan.<sup>486</sup> In arguing for full recovery, Xcel asserted that having a board is necessary and benefits Xcel generally.<sup>487</sup>

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<sup>481</sup> Ex. DOC-2 at 16 (Johnson Surrebuttal).

<sup>482</sup> Ex. Xcel-46 at 13 (Capra Rebuttal).

<sup>483</sup> Ex. DOC-2 at 18 (Johnson Surrebuttal).

<sup>484</sup> Ex. DOC-2 at 18 (Johnson Surrebuttal).

<sup>485</sup> Ex. Xcel-46 at 12 (Capra Rebuttal).

<sup>486</sup> Ex. DOC-3 at MBK-D-30 at 6 (Kehrwald Direct) (Xcel's Response to DOC IR 2114, Department's annotated Attachment A).

<sup>487</sup> Ex. Xcel-63 at 40–41 (Ly Rebuttal).

271. The Department acknowledged that some of this compensation is reasonable, but also that the board of directors serves significant shareholder interests and therefore recommends that Xcel's recovery be capped at 50%.<sup>488</sup> The Department pointed out that Xcel's own proxy statement states that director compensation is designed to align director and shareholder interests.<sup>489</sup>

272. Xcel responded that, as a Minnesota corporation, it is legally required to have a Board of directors.<sup>490</sup> Xcel also argued that a Board of Directors helps to ensure the general wellbeing of the company, which is beneficial to ratepayers.<sup>491</sup>

273. The Judge agrees that some of the Board of Directors compensation is a reasonable expense for which Xcel should recover. The Judge also agrees with the Department that the entire Board of Directors expense is not reasonable to recover because the Board does serve significant shareholder interests. Xcel's argument that as a Minnesota corporation it is required to have a Board of Directors is misplaced. Every Minnesota corporation must have a Board of Directors. That does not mean it is reasonable for Xcel to recover its entire cost from ratepayers when the Board of Directors serves significant shareholder interests. The Commission should limit recovery of the Board of Directors expenses to 50%, as that strikes an appropriate balance between shareholder and ratepayer interests.

#### **IV. REVENUE, EXPENSES, AND RATE BASE ITEMS—UNCONTESTED ISSUES**

##### **A. Wildfire Mitigation Program Expenses.**

274. Wildfire risks are increasing across the country.<sup>492</sup> The severity and intensity of wildfires has been rising since the year 2000.<sup>493</sup> Xcel, as with other electric utilities, has facilities in areas that have high wildfire risk and equipment that could cause ignitions leading to wildfires.<sup>494</sup> In the Commission's referral order, it directed the parties to thoroughly develop a record on what wildfire mitigation costs should be approved.<sup>495</sup>

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<sup>488</sup> Ex. DOC-3 at 55 (Kehrwald Direct).

<sup>489</sup> Ex. DOC-4 at 66 (Kehrwald Surrebuttal).

<sup>490</sup> Ex. Xcel-63 at 40 (Ly Rebuttal).

<sup>491</sup> Ex. Xcel-63 at 40 (Ly Rebuttal).

<sup>492</sup> Ex. Xcel-47 at 3 (Sherwood Direct).

<sup>493</sup> Ex. Xcel-47 at 3 (Sherwood Direct).

<sup>494</sup> Ex. Xcel-47 at 3 (Sherwood Direct).

<sup>495</sup> NOTICE AND ORDER FOR HEARING at 2.

## 1. Xcel's Initial Proposal

275. Xcel proposed a variety of programs and related expenditures in 2025 and 2026 to mitigate wildfire risk, with several of the programs being expected to continue beyond 2026.<sup>496</sup>

276. Xcel explained that Minnesota's climate is warming, and experiencing more droughts and higher winds.<sup>497</sup> In recent years, the state has averaged approximately 217 Red Flag Warning events per year, indicating an ongoing or imminent critical fire weather pattern.<sup>498</sup> The state's wildfire risk is not evenly distributed, with the majority of fires originating in the northern and central regions of the state.<sup>499</sup> Unlike many western and southern states, where lightning or other natural causes are a primary cause of wildfires, the majority of Minnesota's wildfires are caused by human activity.<sup>500</sup>

277. Xcel retained a third party, EDM International, Inc., to develop a geospatial wildfire risk map specific to Xcel's territory, including service territory and assets such as transmission facilities.<sup>501</sup> EDM used raw datasets created by the United States Department of Agriculture Forest Service (USFS), available at [wildfirerisk.org](http://wildfirerisk.org).<sup>502</sup> The operationalized wildfire risk map reflects three geographic tiers of wildfire risk: Tier 1 (lower risk), Tier 2 (moderate risk), and Tier 3 (high risk).<sup>503</sup>

278. Xcel organized its wildfire mitigation activities into four categories: situational awareness, system resiliency, operational mitigations, and customer support. Xcel's wildfire mitigation plan includes multiple activities within each category, as shown in Table 1 below.<sup>504</sup>

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<sup>496</sup> Ex. DOC-9 at 6 (Borden Direct). See also Ex. Xcel-34 (Mensen Direct), Ex. Xcel-47 (Sherwood Direct), Ex. Xcel-48 (Sherwood Direct Supplemental), Ex. Xcel-79 (Bloch Supplemental Direct).

<sup>497</sup> Ex. Xcel-47 at 11 (Sherwood Direct).

<sup>498</sup> Ex. Xcel-47 at 10–11 (Sherwood Direct).

<sup>499</sup> Ex. Xcel-47 at 12 (Sherwood Direct).

<sup>500</sup> Ex. Xcel-47 at 12 (Sherwood Direct).

<sup>501</sup> Ex. Xcel-47 at 13, 16–17 (Sherwood Direct).

<sup>502</sup> Ex. Xcel-47 at 14 (Sherwood Direct).

<sup>503</sup> Ex. Xcel-47 at 21 (Sherwood Direct).

<sup>504</sup> Ex. Xcel-47 at 26 (Sherwood Direct).

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**Table 1**  
**Summary of 2025 Test Year and 2026 Plan Year Wildfire Activities**

Category	Activity	Supporting Witness
Situational Awareness	<ul style="list-style-type: none"> <li>• Artificial Intelligence Cameras</li> <li>• GIS Asset Conflation</li> <li>• Risk Mapping</li> <li>• Risk, Weather and Fire Science Modeling</li> <li>• Software</li> <li>• Weather Stations</li> </ul>	Scheller Mensen Sherwood
System Resiliency	<ul style="list-style-type: none"> <li>• Asset Assessment and Remediations</li> <li>• Line Rebuilds</li> <li>• Non-Expulsion Upgrades</li> <li>• Pole Replacements</li> <li>• Vegetation Management</li> </ul>	Mensen Berkhund
Operational Mitigations	<ul style="list-style-type: none"> <li>• ADMS Wildfire Mitigation Application</li> <li>• Enhanced Powerline Safety Settings</li> <li>• Fault Detection</li> <li>• SCADA Connectivity</li> </ul>	Mensen Scheller
Customer Support	<ul style="list-style-type: none"> <li>• Communications and Engagement</li> <li>• Outage Map Upgrade</li> <li>• PPS Customer Journey</li> </ul>	Scheller Robinson

279. To support its proposed wildfire mitigation plan, Xcel initially budgeted for \$175.3 million in capital spending and \$76.8 million in O&M spending across 2025 and 2026, as shown in Tables 2 and 3.<sup>505</sup>

**Table 2**  
**2025 Test Year and 2026 Plan Year Wildfire Capital Additions**  
**(\$ Millions)**

Category	2025 Test Year	2026 Plan Year	2025-2026 Cumulative
Customer Support	\$0.0	\$3.2	\$3.2
Operational Mitigations	\$58.3	\$70.6	\$128.9
Situational Awareness	\$1.2	\$1.5	\$2.7
System Resiliency	\$4.8	\$35.7	\$40.5
<b>Total</b>	<b>\$64.3</b>	<b>\$111.0</b>	<b>\$175.3</b>

<sup>505</sup> Ex. Xcel-47 at 27 (Sherwood Direct).

**Table 3**  
**2025 Test Year and 2026 Plan Year Wildfire O&M**  
**(\$ Millions)**  
**Minnesota State Electric Jurisdiction**

Category	2025 Test Year	2026 Plan Year	2025-2026 Cumulative
Customer Support	\$1.1	\$1.2	\$2.3
Operational Mitigations	\$1.8	\$2.0	\$3.8
Situational Awareness	\$5.4	\$6.7	\$12.1
System Resiliency	\$20.0	\$38.6	\$58.6
<b>Total</b>	<b>\$28.3</b>	<b>\$48.4</b>	<b>\$76.8</b>

280. Xcel noted that it developed its 2025 and 2026 wildfire mitigation plan based on an early understanding of the risk profile in Xcel's service territory and its experience developing wildfire mitigation plans in other jurisdictions.<sup>506</sup> Xcel noted that it would be revisiting its plan now that it had completed its operationalized wildfire risk map.<sup>507</sup> In supplemental direct testimony, Xcel submitted updated budgets, as shown in Table 1 and Table 2 below.<sup>508</sup>

**Table 1**  
**2025 Test Year and 2026 Plan Year Wildfire Capital Additions**  
**(\$ Millions)**  
**Minnesota State Electric Jurisdiction**

Category	Direct Testimony 2025-2026 Cumulative <sup>1</sup>	Supplemental Direct Testimony 2025-2026 Cumulative	Change
Customer Support	\$3.2	\$3.2	\$0.0
Operational Mitigations	\$129.6	\$140.5	\$10.9
Situational Awareness	\$4.3	\$14.5	\$10.2
System Resiliency	\$41.6	\$121.8	\$80.2
<b>Total</b>	<b>\$178.7</b>	<b>\$280.0</b>	<b>\$101.3</b>

<sup>506</sup> Ex. Xcel-47 at 27 (Sherwood Direct).

<sup>507</sup> Ex. Xcel-47 at 27–28 (Sherwood Direct).

<sup>508</sup> Ex. Xcel-48 at 4–5 (Sherwood Direct Supplemental).

**Table 2**  
**2025 Test Year and 2026 Plan Year Wildfire O&M**  
**(\$ Millions)**  
**Minnesota State Electric Jurisdiction**

Category	Direct Testimony 2025-2026 Cumulative	Supplemental Direct Testimony 2025-2026 Cumulative	Change
Customer Support	\$2.3	\$2.3	\$0.0
Operational Mitigations	\$3.8	\$0.2	(\$3.6)
Situational Awareness	\$12.1	\$12.7	\$0.6
System Resiliency	\$58.6	\$8.7	(\$49.9)
<b>Total</b>	<b>\$76.8</b>	<b>\$23.8</b>	<b>(\$52.9)</b>

The updated budgets reflected higher capital spending, totaling \$280.0 million across 2025 and 2026, and lower O&M spending, totaling \$23.8 million across 2025 and 2026.

281. Xcel proposed approximately \$140 million in spending on Enhanced Powerline Safety Settings (EPSS), the largest proposed expenditure in the company's wildfire mitigation plan.<sup>509</sup> EPSS is an operational mitigation targeted at reducing wildfire ignition risk.<sup>510</sup> When EPSS is activated, relays and reclosers are more sensitive to electrical faults and react faster to those faults compared to normal settings.<sup>511</sup> When EPSS is activated, it also disables reclosing in relays and reclosers that would normally automatically reclose after tripping because of a fault.<sup>512</sup> A fault creates a risk of wildfire ignition because it generally redirects power from its intended path and may cause an electric arc. Any object having power redirected into it or that is exposed to an arc will experience heating and may catch fire.<sup>513</sup>

282. Xcel proposed spending approximately \$80 million on the Overhead Pole Assessments (OPA) program.<sup>514</sup> OPA involves unmanned aerial drones to capture images of distribution structures and attachments.<sup>515</sup> The resulting images are then analyzed to identify and classify deficiencies that can impact public safety and/or reliability.<sup>516</sup> Xcel also plans to gather detailed informed regarding assets in the field, improving the company's ability to operate and maintain the distribution system and

<sup>509</sup> Ex. DOC-9 at 9 (Borden Direct).

<sup>510</sup> Ex. Xcel-34 at 165 (Mensen Direct).

<sup>511</sup> Ex. Xcel-34 at 165 (Mensen Direct).

<sup>512</sup> Ex. Xcel-34 at 165 (Mensen Direct).

<sup>513</sup> Ex. Xcel-34 at 165 (Mensen Direct).

<sup>514</sup> Ex. DOC-9 at 9 (Borden Direct).

<sup>515</sup> Ex. Xcel-34 at 173 (Mensen Direct).

<sup>516</sup> Ex. Xcel-34 at 173 (Mensen Direct).

determine where to implement wildfire mitigations.<sup>517</sup> These assessments help identify defects on the distribution system that could result in an ignition if left unaddressed.<sup>518</sup>

283. Xcel requested approximately \$90 million in wildfire vegetation management (VM) costs for 2025 and 2026, of which Xcel proposes to capitalize \$84 million.<sup>519</sup> VM programs are generally designed to protect utility infrastructure from damage and to help reduce injury to the public, the risk of wildfires, and interruptions of electric service.<sup>520</sup> VM includes actions such as tree pruning, brush control/removal, and tree removal.<sup>521</sup> Xcel proposed a VM Wildfire Corridor program to manage vegetation to an “enhanced clearance standard” of 10 feet rather than the 6 foot general clearance used in non-wildfire areas.<sup>522</sup>

284. Xcel’s initial proposal treated VM costs as O&M. In supplemental direct, the company changed positions, and argued that most VM expenditures should be capitalized due to the ability to accomplish “feeder-level planning” to coordinate VM done to mitigate wildfire risk with line clearances done in preparation for capital work.<sup>523</sup>

285. Xcel’s wildfire mitigation proposal also included a number of smaller expenditures. Those plans include using artificial intelligence (AI) cameras to identify smoke plumes, installing additional weather states across its service territory based on risk area and impact on population and assets, expanded in-house wildfire mitigation capabilities, subscriptions to advanced wildfire spread modeling software, and regularly updating the wildfire risk map developed for the company.<sup>524</sup>

## 2. The Department’s Position

286. The Commission requested the Department receive specialized technical professional services to develop and evaluate Xcel’s wildfire mitigation costs.<sup>525</sup> The Department’s expert witness on wildfire mitigation costs, Eric Borden, has extensive professional experience as an expert witness on the reasonableness of utility wildfire mitigation expenditures and wildfire risk modeling issues.<sup>526</sup>

287. The Department started by assessing the relative wildfire risk Xcel faces in Minnesota. Xcel’s wildfire risk in Minnesota is low compared to wildfire risks nationally and Minnesota as a whole.<sup>527</sup> For example, the wildfire expected annual loss (EAL) in

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<sup>517</sup> Ex. Xcel-34 at 173–74 (Mensen Direct).

<sup>518</sup> Ex. Xcel-34 at 174 (Mensen Direct).

<sup>519</sup> Ex. DOC-9 at 38 (Borden Direct).

<sup>520</sup> Ex. Xcel-34 at 183 (Mensen Direct).

<sup>521</sup> Ex. Xcel-34 at 183 (Mensen Direct).

<sup>522</sup> Ex. Xcel-34 at 184 (Mensen Direct).

<sup>523</sup> Ex. Xcel-79 at 5 (Bloch Supplemental Direct).

<sup>524</sup> Ex. Xcel-47 at 32–39 (Sherwood Direct).

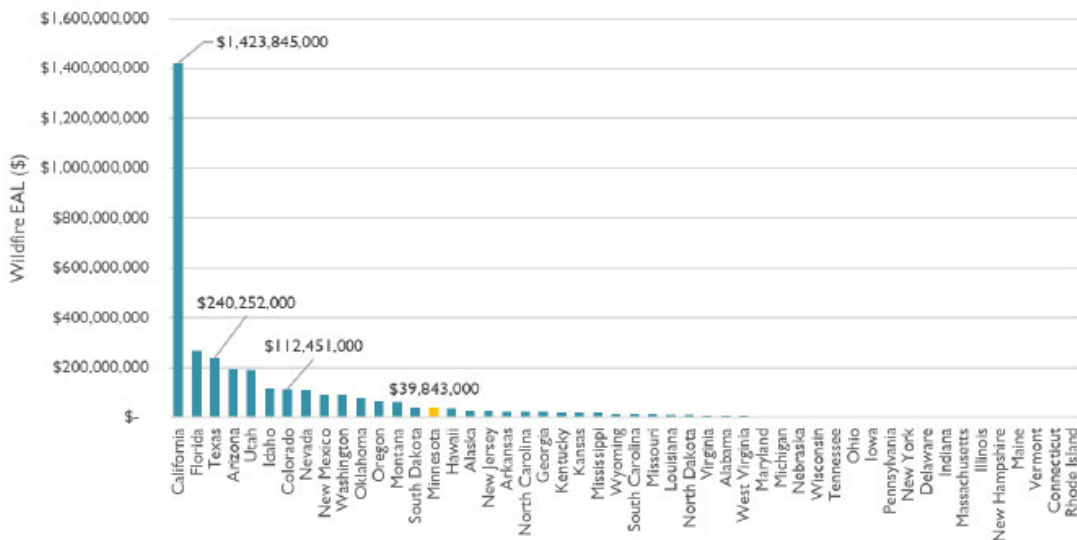
<sup>525</sup> NOTICE AND ORDER FOR HEARING at Order Point 3.

<sup>526</sup> Ex. DOC-9 at 1 (Borden Direct).

<sup>527</sup> Ex. DOC-9 at 3 (Borden Direct).

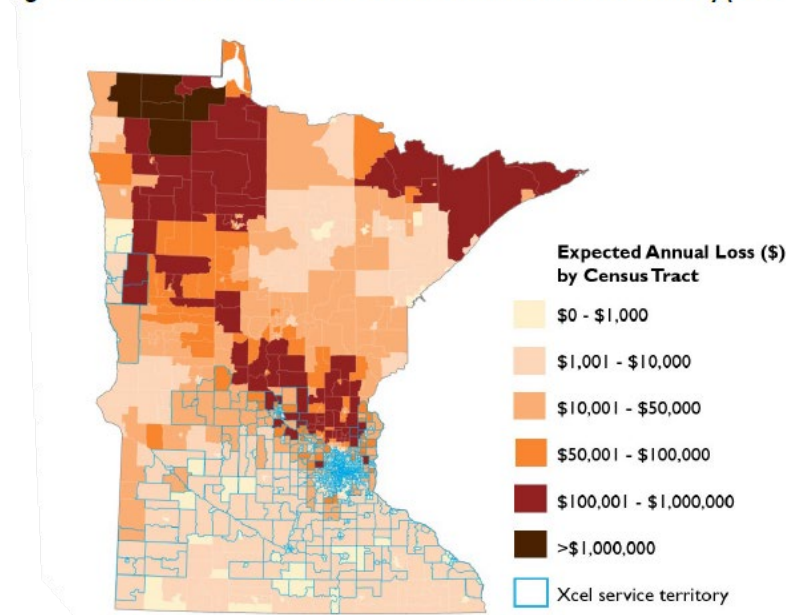
Texas and Colorado, two other states where Xcel operates, are substantially higher than Minnesota's.<sup>528</sup>

**Figure 1. Wildfire EAL by state (2022 dollars)**



Within Minnesota, Xcel's service territory is generally in the lower-risk portions of the state:<sup>529</sup>

**Figure 2. Wildfire EAL in and outside of Xcel's Minnesota service territory (2022 dollars)<sup>22</sup>**



<sup>528</sup> Ex. DOC-9 at 12 (Borden Direct).

<sup>529</sup> Ex. DOC-9 at 13 (Borden Direct).

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288. Xcel's proposal did not include any analysis of the cost-effectiveness of its \$300 million wildfire mitigation proposal.<sup>530</sup> Given the enormous magnitude of the proposed investments, the Department developed its own cost-effectiveness analysis to the extent possible given the incomplete information available from Xcel.<sup>531</sup> The Department's model relied on four primary inputs: expected annual damages from wildfires; annual escalation of risk due to climate change impacts; the percentage of wildfire ignitions attributed to utility power lines; and the effectiveness of the proposed actions in reducing wildfire risk.<sup>532</sup> The Department found that implementing Xcel's wildfire mitigation plan, as proposed by the company, would result in \$27.7 million in risk reduction benefits, at a ratepayer cost of \$790.7 million.<sup>533</sup>

289. The Department's analysis explored the extent to which the use of Public Safety Power Shutoff (PSPS) can mitigate wildfire risk.<sup>534</sup> Utilities implement PSPS by shutting off power in the highest risk areas under the highest risk conditions to prevent catastrophic wildfires.<sup>535</sup> PSPS can be implemented at a significantly lower cost than EPSS, and has been estimated to have an effectiveness of 84%.<sup>536</sup>

290. The Department found that Xcel's larger-scale wildfire mitigation proposals were inadequately supported and not shown to be cost-effective, but the company's initial attempts to model risk gave it a solid foundation from which to improve its assessment of wildfire risk going forward.<sup>537</sup> The Department did not oppose several of Xcel's smaller-scale and foundational proposed expenditures including situational awareness (e.g., cameras), weather stations, and risk modeling tools and software.<sup>538</sup>

291. The Department proposed the following wildfire mitigation proposals for 2025 and 2026:

- The EPSS and OPA programs be implemented only in Tier 3 of Xcel's service territory.
- The Wildfire Corridor program be implemented on half of Tier 3 miles to test the program for efficacy, and should be implemented over two years.
- The line rebuild program and associated pole replacements should be scaled back to 50% of Xcel's proposal to better inform key assumptions and collect data on the cost-effectiveness of this program.

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<sup>530</sup> Ex. DOC-9 at 20 (Borden Direct).

<sup>531</sup> Ex. DOC-9 at 22–26 (Borden Direct); Ex. DOC-10 at 15–17, 23–24 (Borden Surrebuttal).

<sup>532</sup> Ex. DOC-9 at 23 (Borden Direct).

<sup>533</sup> Ex. DOC-10 at 24 (Borden Surrebuttal).

<sup>534</sup> Ex. DOC-9 at 30–32 (Borden Direct).

<sup>535</sup> Ex. DOC-9 at 31 (Borden Direct).

<sup>536</sup> Ex. DOC-9 at 31 (Borden Direct).

<sup>537</sup> Ex. DOC-9 at 3 (Borden Direct).

<sup>538</sup> Ex. DOC-9 at 3 (Borden Direct).

- Vegetation management should be treated as O&M expenditures.<sup>539</sup>

The Department found that this proposal would address the top 30 to 50 percent of Xcel's risk at significantly lower cost than Xcel's proposals, and would allow Xcel to collect critical data that can refine future wildfire mitigation proposals.<sup>540</sup> The Department also argued that Xcel's proposed capitalization of VM was inconsistent with FERC guidance and inappropriate.<sup>541</sup>

292. Implementing the Department's recommendations would reduce capital additions by \$45.99 million in 2025 and \$164.35 million in 2026, and increase O&M expense by \$9.19 million in both 2025 and 2026.<sup>542</sup> Together, this would result in a \$6.3 million increase in the 2025 test year revenue requirement and a \$8.3 million decrease in the 2026 plan year revenue requirement compared to Xcel's rebuttal testimony position.<sup>543</sup>

### **3. Xcel Agreement to the Department's Proposal.**

293. Before the evidentiary hearing, Xcel filed a letter in the docket agreeing to the Department's proposed modifications to the wildfire mitigation plan.<sup>544</sup>

### **4. ALJ Recommendation.**

294. The Judge finds the Department's recommended modifications to Xcel's wildfire mitigation programs and expenses to be reasonable and supported by the record. The Department demonstrated that Xcel had not shown its initial proposal to be cost-effective. The Department's recommendation will allow the company to begin implementing wildfire mitigation measures in the highest-risk areas where Xcel has service territory or assets, resulting in immediate reduction of risk while allowing the company to gather additional information that can guide future decision making. The lower-cost mitigations proposed by Xcel, such as the use of AI cameras, weather stations, and risk modeling tools and software, will also support the immediate mitigation of risk in higher-risk areas while generating the data needed to assess future wildfire mitigation proposals. The Department also recommended the related vegetation management costs be expensed and not capitalized consistent with FERC requirements. The Judge recommends that the Commission adopt the parties' proposed wildfire mitigation programs and expenses.

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<sup>539</sup> Ex. DOC-10 at 29 (Borden Surrebuttal).

<sup>540</sup> Ex. DOC-9 at 4–6 (Borden Direct).

<sup>541</sup> Ex. DOC-9 at 38–42 (Borden Direct).

<sup>542</sup> Ex. DOC-10 at 30 (Borden Surrebuttal).

<sup>543</sup> Ex. DOC-2, MAJ-S-1 at 1 (Johnson Surrebuttal).

<sup>544</sup> Xcel Letter (Dec. 12, 2025) (eDocket No. [202512-225803-01](#)).

**B. Nuclear Decommissioning & Accrual Costs.**

295. Costs for nuclear decommissioning are managed through the accumulation of annual accruals that are spread over the lifetime of the assets. The accrual amounts collected through rates are funded externally in a trust per Nuclear Regulatory Commission rules.<sup>545</sup>

296. Xcel initially requested \$21.6 million for its annual nuclear decommission accrual in the 2025 test year and 2026 plan year.<sup>546</sup> After additional Commission orders on Xcel's triennial nuclear plant decommissioning plan and IRP were issued, the company adjusted its requested decommissioning accrual amount to zero.<sup>547</sup>

297. The purpose of end-of-life (EOL) nuclear fuel accrual is to recover the expense associated with the unused nuclear fuel at the time of reactor shutdown. Unlike the decommissioning funds, which are held in external accounts, the EOL nuclear fuel accrual is held in internal funds by the Company. As such, there is an added offset to rate base for the EOL funds that customers receive resulting in a lower rate base.

298. Xcel initially requested \$714,366 in EOL accrual.<sup>548</sup> After additional Commission orders on Xcel's triennial nuclear plant decommissioning plan and IRP were issued, the company adjusted its requested for EOL accrual to \$154,695 in 2025 and \$159,688 in 2026.

299. The Department agreed with Xcel's updated proposals for nuclear decommissioning accrual and EOL accrual.<sup>549</sup>

300. The Judge finds the requested EOL accrual of \$154,695 in 2025 and \$159,688 in 2026, and the proposal to include no additional nuclear decommission accrual, to be reasonable. These amounts reflect recent Commission orders that have studied the cost of nuclear decommissioning in-depth and extended the approved operating lives of the Monticello and Prairie Island nuclear plants.

**C. Generation Capacity Revenues.**

301. Utilities can earn capacity revenues by selling excess generation capacity not needed to serve their own load to other utilities through bilateral contracts or through the Midcontinent Independent System Operator (MISO) capacity auction, also known as the Planning Resource Auction (PRA).<sup>550</sup>

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<sup>545</sup> Ex. DOC-5 at 21–22 (Golden Direct).

<sup>546</sup> Ex. Xcel-69 at 51 (Johnson Direct).

<sup>547</sup> Ex. Xcel-86 at 5–6 (Moeller Rebuttal).

<sup>548</sup> Ex. Xcel-69 at 53 (Johnson Direct).

<sup>549</sup> Ex. DOC-6 at 4 (Golden Surrebuttal).

<sup>550</sup> Ex. DOC-5 at 9 (Golden Direct).

302. Xcel included capacity revenues obtained from bilateral contracts of [TRADE SECRET DATA BEGINS. . . [REDACTED] . . .TRADE SECRET DATA ENDS] for 2025 but did not include any capacity revenues from bilateral contracts for 2026.<sup>551</sup> The Company also included capacity revenues obtained from the MISO PRA of [TRADE SECRET DATA BEGINS. . . [REDACTED] . . .TRADE SECRET DATA ENDS] for 2025 but did not include any amount for 2026.<sup>2</sup>

303. After Xcel's initial filing, it obtained additional revenues from bilateral contracts for both 2025 and 2026. Additional capacity revenues (above what was included in the test years) from bilateral contracts for 2025 total [TRADE SECRET DATA BEGINS. . . [REDACTED] . . .TRADE SECRET DATA ENDS] and for 2026 total [TRADE SECRET DATA BEGINS. . . [REDACTED] . . .TRADE SECRET DATA ENDS].<sup>553</sup> The Department recommended Xcel's capacity revenue be updated to reflect these contracts.<sup>554</sup>

304. Xcel also obtained additional revenues from the PRA after its initial filing.<sup>555</sup> The capacity revenues resulting from the 2025-2026 PRA auction total [TRADE SECRET DATA BEGINS. . . [REDACTED] . . .TRADE SECRET DATA ENDS] for 2025 and [TRADE SECRET DATA BEGINS. . . [REDACTED] . . .TRADE SECRET DATA ENDS] for 2026.<sup>556</sup> The Department explained that because the 2025–2026 PRA only ran through May 31, 2026, it was reasonable to expect that Xcel would get additional PRA revenue for June 1 through December 31 of that year.<sup>557</sup> The Department recommended using the 2025 PRA capacity revenue figure to estimate the total for the 2026 plan year because recent actual figures provide a reasonable estimate of future expenses, and because this amount is subject to a true-up in Xcel's annual capacity tracker filings.<sup>558</sup>

305. Xcel agreed to the Department's proposal to update the capacity revenue baseline amounts.<sup>559</sup>

306. The Judge finds the parties' proposal to be reasonable because it reflects Xcel's actual capacity revenues for 2025, the capacity revenues for 2025 are a reasonable basis for estimating the 2026 capacity revenues, and the capacity revenues are subject to a true-up. The Judge recommends that the Commission adopt the parties' proposal.

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<sup>551</sup> Ex. DOC-5 at 10, ARG-D-3 (Golden Direct).

<sup>552</sup> Ex. DOC-5 at 10, ARG-D-3 (Golden Direct).

<sup>553</sup> Ex. DOC-5 at 10, ARG-D-3 (Golden Direct).

<sup>554</sup> Ex. DOC-5 at 10 (Golden Direct).

<sup>555</sup> Ex. DOC-5 at 11 (Golden Direct).

<sup>556</sup> Ex. DOC-5 at 12 (Golden Direct).

<sup>557</sup> Ex. DOC-5 at 12 (Golden Direct).

<sup>558</sup> Ex. DOC-5 at 12–13 (Golden Direct).

<sup>559</sup> Ex. Xcel-19 at 13 (Halama Rebuttal).

**D. Nitrogen Oxide Allowance Expenses.**

307. In 2023, the EPA published its final rule for the Good Neighbor Plan (GNP) to reduce smog-forming NOx pollution from power plants in 23 states, including Minnesota.<sup>560</sup> The rule briefly went into effect in Minnesota in 2023, but was stayed following challenges to the rule by Minnesota utilities including Xcel.<sup>561</sup> After the United States Supreme Court ordered a stay of the GNP, the EPA issued its own administrative stay of the GNP.<sup>562</sup> Xcel is not currently subject to any enforcement actions or obligations under the GNP.<sup>563</sup>

308. If the GNP went into effect, Xcel estimates that it would need to either purchase NOx allowances or curtail generation to comply with the rule.<sup>564</sup> Xcel estimates that GNP compliance could cost \$18 million to \$40.5 million each ozone season.<sup>565</sup> Due to uncertainty over whether the GNP will be implemented and the cost to comply with the rule, the company requested to establish a tracker for possible compliance costs related to the GNP rule.<sup>566</sup>

309. The Department agreed that it was appropriate to implement a tracker for compliance costs related to the GNP rule because there is significant uncertainty regarding whether the rule will be implemented, and if it is, what the compliance costs will be.<sup>567</sup> The Department recommended that Xcel be required to provide adequate support for NOx allowance expenses and/or generation curtailment expenses in the company's annual compliance filings before cost recovery is approved.<sup>568</sup>

310. Xcel agreed to the Department's proposal to condition tracker recovery on providing adequate support in its annual compliance filings.<sup>569</sup>

311. The Judge finds that it is reasonable to allow Xcel to track the cost of compliance with the GNP Rule in a tracker and recover costs upon showing the expenses to be justified in its annual compliance filings. The Judge recommends that the Commission adopt the parties' proposal for the NOx tracker.

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<sup>560</sup> Ex. DOC-5 at 18 (Golden Direct).

<sup>561</sup> Ex. DOC-5 at 18 (Golden Direct).

<sup>562</sup> Ex. DOC-5 at 18 (Golden Direct).

<sup>563</sup> Ex. DOC-5 at 18–19 (Golden Direct).

<sup>564</sup> Ex. Xcel-59 at 8 (West Direct).

<sup>565</sup> Ex. Xcel-59 at 9–10 (West Direct).

<sup>566</sup> Ex. Xcel-17 at 115–116 (Halama Direct).

<sup>567</sup> Ex. DOC-5 at 21 (Golden Direct).

<sup>568</sup> Ex. DOC-5 at 21 (Golden Direct).

<sup>569</sup> Ex. Xcel-61 at 2 (West Rebuttal).

**E. Coal Combustion Residuals Expenses Tracker.**

312. Coal ash, also known as Coal Combustion Residuals (CCR), is the by-product of burning coal in coal-fired power plants.<sup>570</sup> CCR is a regulated non-hazardous waste under 2015 Environmental Protection Agency regulations, which were most recently revised in 2024.<sup>571</sup> These obligations are called the “Legacy CCR Rule.”<sup>572</sup>

313. Xcel has been monitoring groundwater conditions at sites subject to the 2015 CCR regulations.<sup>573</sup> The 2024 revisions significantly expanded the scope of CCR regulations, covering new facilities which will require evaluation and, depending on the results of those evaluations, possible future compliance obligations.<sup>574</sup>

314. CCR costs are normally included within overall decommissioning costs.<sup>575</sup> This approach works well when decommissioning projections are stable and can be collected over the life of the asset. When decommissioning requirements change with little remaining life left for plants, however, the result is either elevated depreciation rates over the remaining life or actual decommissioning costs that exceed cost of removal reserves.<sup>576</sup>

315. Xcel and the Department agree that it is appropriate to approve a tracker to allow the company to recover compliance costs associated with the Legacy CCR Rule that are not covered by existing depreciation expense.<sup>577</sup>

316. The Department initially recommended Xcel be required to provide adequate support for CCR compliance expenses through a compliance filing before recovery is approved, and not allowing recovery for internal labor costs in the CCR tracker.<sup>578</sup>

317. Xcel agreed to provide support for compliance costs added to the CCR tracker.<sup>579</sup> The company argued that it was inappropriate to automatically disallow internal labor costs because Xcel will likely have incremental labor costs attributable to CCR compliance.

318. The Department accepted Xcel’s explanation of the potential for incremental internal labor costs arising from complying with the Legacy CCR Rule. The Department now recommends that incremental internal labor costs be included in the

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<sup>570</sup> Ex. Xcel-69 at 53 (Johnson Direct).

<sup>571</sup> Ex. Xcel-59 at 16–17 (West Direct).

<sup>572</sup> Ex. DOC-5 at 21–22 (Golden Direct).

<sup>573</sup> Ex. Xcel-59 at 16 (West Direct).

<sup>574</sup> Ex. Xcel-59 at 17 (West Direct).

<sup>575</sup> Ex. Xcel-69 at 54 (Johnson Direct).

<sup>576</sup> Ex. Xcel-69 at 54 (Johnson Direct).

<sup>577</sup> Ex. Xcel-69 at 54–55 (Johnson Direct); Ex. DOC-5 at 26 (Golden Direct).

<sup>578</sup> Ex. DOC-5 at 26 (Golden Direct).

<sup>579</sup> Ex. Xcel-61 at 3 (West Rebuttal).

costs eligible for recovery under the CCR tracker upon justification and support in its annual compliance filings.

319. The Judge finds that it is reasonable to allow Xcel to track the cost of compliance with the Legacy CCR Rule in a tracker and recover costs upon showing the expenses to be justified in its annual compliance filings. The Judge recommends that the Commission adopt the parties' proposal for the CCR tracker.

**F. Monticello & Prairie Island Depreciation Expense.**

320. Utilities recover capital costs for assets “used and useful” in providing service by depreciating those costs over a number of years.<sup>580</sup> The Commission’s rules require generally that the costs of an asset be amortized over its “probable service life,” which is defined as the “period of time extending from the date of its installation to the forecasted date when it will probably be retired from service.”<sup>581</sup> Changes to probable service life and the resulting amortization period impacts the utility’s revenue requirement.

321. In Xcel’s 2024–2040 Integrated Resource Plan (IRP), it requested, and the Commission ordered, an extension of the operating lives of the company’s nuclear generating plants.<sup>582</sup> The plan extended Monticello’s operating life from its previously scheduled retirement date of 2040 to 2050.<sup>583</sup> The plan extended the operating lives of Prairie Island Units 1 and 2 from their previously scheduled retirements of 2033 and 2024 to 2053 and 2054, respectively.<sup>584</sup>

322. The Department, consistent with past practice, recommended matching the depreciation lives of these plants to the operational lives approved in the most recent IRP.<sup>585</sup>

323. All parties who commented on the Department’s recommendation to match the depreciation lives of the nuclear generating plants to the operational lives approved in Xcel’s most recent IRP agreed with the Department’s proposal.<sup>586</sup>

324. The Judge finds the parties’ proposal to match the depreciation lives of the Monticello and Prairie Island nuclear generating plants to the operating lives approved in Xcel’s most recent IRP to be reasonable, and recommends that the Commission approve this request.

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<sup>580</sup> See, e.g., Minn. Stat. § 216B.16, subd. 6 (2024).

<sup>581</sup> Minn. R. 7825.0500, subps. 2, 10 (2025).

<sup>582</sup> ORDER APPROVING XCEL 2024–2040 IRP at 7, 22.

<sup>583</sup> ORDER APPROVING XCEL 2024–2040 IRP at 14, 22.

<sup>584</sup> ORDER APPROVING XCEL 2024–2040 IRP at 14, 22.

<sup>585</sup> Ex. DOC-23 at 14 (Jones Direct).

<sup>586</sup> Ex. Xcel-86 at 3–4 (Moeller Rebuttal); Ex. XLI-5 at 9–10 (LaConte Rebuttal).

**G. Bad Debt Expense.**

325. Bad debt expense is an estimate for uncollectible billed revenue for sales, services, etc. Because bad debt is typically tied to revenue, its relationship, or measure, is often expressed as a percentage of revenue. Bad debt reduces a company's financial net income. Generally accepted accounting principles (GAAP) require that an estimate be made of the current amount of revenue that will ultimately become uncollectible, to match the expenses with the corresponding revenue earned during that period. The estimated amount of bad debt expense is an accounting entry that debits (increases) bad debt expense on the income statement and credits (increases) the bad debt reserve account on the balance sheet. When an individual account is written off, it is charged against the bad debt reserve. The reserve is debited (reduced) and the receivable account is credited (reduced). The bad debt reserve should represent the amount of existing customer receivables that will ultimately not be collected.<sup>587</sup>

326. In this case, Xcel included \$19.2 million of commodity bad debt expense and \$109,000 for non-commodity bad debt expense in the 2025 test year, or 0.50% of projected test-year revenues. Xcel included \$21.4 million of commodity bad debt expense and \$109,000 for non-commodity bad debt expense in the 2026 test year, or 0.53% of projected test-year revenues. These ratios are higher than the three-year average for the most recent years of 2022 to 2024 of 0.4%.<sup>588</sup>

327. Xcel calculates commodity bad debt expense level by applying the bad debt ratio for each year to the corresponding year's total company forecasted commodity revenues. Further allocation to natural gas and electric customers are based on approximate proportion of each segment's bad debt expense. The Company's 2025 Test Year allocator is based on the four previous calendar years actual operating revenues and using this methodology Xcel has allocated 88.1% to State of Minnesota Electric Jurisdiction to reflect that MN electric commodity revenues equaled 88.1% of the NSPM commodity revenues during the January 2020 to December 2023 period.<sup>589</sup>

328. In reviewing Xcel's proposal, the Department considered Xcel's historical experience from 2022 to 2024 and determined that Xcel's proposed test year bad debt expense is overstated relative to the proposed test year revenues. Using a three-year historical average, the Department calculated a bad debt factor of 0.45% of retail revenues and recommend the use of this factor to determine the 2025 test year bad debt expense amount and 0.50% for the 2026 plan year, compared to the .50% and .53% proposed by the Company.<sup>590</sup>

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<sup>587</sup> Ex. DOC-23 at 18 (Jones Direct).

<sup>588</sup> Ex. DOC-23 at 19 (Jones Direct).

<sup>589</sup> Ex. DOC-23 at 19 (Jones Direct).

<sup>590</sup> Ex. DOC-23 at 20 (Jones Direct).

329. In response, Xcel reiterated its support for using of .50% and .53% as the bad debt expense revenue ratio based on actual 2024 data and August 2025 forecast.<sup>591</sup> Xcel noted that from 2020 through the first 6 months of 2025, the year 2022 represents an outlier which plummets below 2020-2025 averages. Xcel also asserted that actual data for 2024 and the August 2025 forecast affirmed the reasonableness of the 2025 forecasted percentage.<sup>592</sup>

330. Upon reviewing Xcel's reply, the Department concluded that the Company's original proposal was reasonable. The Department noted that year-to-date actuals through September 30, 2025 showed Xcel's year-to-date actual bad debt expense was at 74.75% of the estimated MN Electric Jurisdiction bad debt expense amount for the test year. Given how little discrepancy existed between the forecast and actuals, the Department agreed the Company's proposed bad debt expense ratio and estimated bad debt expense levels for 2025 and 2026 were reasonable.<sup>593</sup>

331. The Judge concludes that the Department's and Xcel's resolution of the bad debt expense issue, supported by historical data and forecast accuracy, is reasonable and appropriately reflects projected test-year revenues.

#### **H. Sherco Unit 1 Inventory Amortization.**

332. Unit 1 of the Xcel's Sherburne County Generating Station ("Sherco") is scheduled to retire in 2026. As a result of the scheduled closure, Xcel proposed to write off \$5.9 million in obsolete inventory in 2026.<sup>594</sup> The Department agreed that it was appropriate for Xcel to write off the obsolete inventory but disagreed that it was reasonable to write off the entire balance in 2026. Instead, the Department recommended that Xcel be required amortize this balance over a three-year period beginning in 2026, similar the Company's proposal to amortize rate case expenses.<sup>595</sup>

333. In response, Xcel agreed with the concept of amortizing the write off but proposed to begin the amortization in 2025 instead of 2026.<sup>596</sup> Xcel asserted that beginning the amortization in 2025 better aligns costs with the period the asset is available to provide service to customers.<sup>597</sup>

334. The Department, in turn, agreed with Xcel's proposal to begin the amortization in 2025 because it better aligned with the costs with Unit 1's remaining

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<sup>591</sup> Ex. Xcel-81 at 3-4 (Howard Rebuttal).

<sup>592</sup> Ex. Xcel-81 at 4 (Howard Rebuttal).

<sup>593</sup> Ex. DOC-24 at 8 (Jones Direct).

<sup>594</sup> Ex. Xcel-44 at 59 (Capra Direct); Ex. DOC-1 at 39 (Johnson Direct).

<sup>595</sup> Ex. DOC-1 at 40 (Johnson Direct).

<sup>596</sup> Ex. Xcel-19 at 27 (Halama Rebuttal).

<sup>597</sup> Ex. DOC-2, MAJ-S-3 (Johnson Surrebuttal).

operating life. This adjustment increases Xcel’s generation O&M expense by about \$2 million in 2025 and reduces it by about \$3.9 million in 2026.<sup>598</sup>

335. The Judge finds that the agreement to amortize Sherco Unit 1’s obsolete inventory over three years beginning in 2025 reasonably aligns costs with service life, addressing Department concerns while ensuring fair and accurate cost recovery. The Commission should adopt it.

## **I. Tax Credits.**

336. Xcel receives tax credits that reduce its income tax liability. Tax credits are offered by the government to incentivize businesses to engage in certain activities deemed beneficial to the economy. Here, the Department recommended adjustments to several of Xcel’s forecasted tax credit amounts.<sup>599</sup>

### **1. Renewable Electricity Production Tax Credits**

337. Among other credits, Xcel received renewable electricity production tax credits (“PTCs”) for electricity generated using qualified resources. PTCs reduce the Company’s tax expense when calculating the revenue requirement.<sup>600</sup> In this case, Xcel proposed to include PTC amounts of (\$252,741,000) for the 2025 test year and (\$222,256,000) for the 2026 test year.<sup>601</sup>

338. In response, the Department originally recommended adjusting Xcel’s PTC amounts for the 2025 and 2026 test years to reflect updated February 2025 forecasts rather than the Company’s July 2024 estimates.<sup>602</sup> While supporting Xcel’s continued use of a true-up mechanism for PTCs in the Renewable Energy Standards (“RES”) Rider, the Department reasoned that the original forecast was outdated and proposed using the updated figures for greater accuracy.<sup>603</sup> This adjustment increases the PTC-related revenue requirement reduction for Minnesota’s electric jurisdiction by approximately \$21.5 million in 2025 and \$10.4 million in 2026, thereby lowering the overall rate increase requested by the Company.<sup>604</sup>

339. Xcel agreed with the Department that the PTC baseline reflected in rates should reflect the most recent forecast.<sup>605</sup> The Company asserted, however, that the Department’s calculation did not account for an adjustment relating to solar PTC allocations.<sup>606</sup> Xcel then provided an updated calculation to account for this adjustment:

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<sup>598</sup> Ex. DOC-2 at 13 (Johnson Surrebuttal).

<sup>599</sup> Ex. DOC-7 at 3 (Uphus Direct).

<sup>600</sup> Ex. DOC-7 at 3 (Uphus Direct).

<sup>601</sup> Ex. Xcel-17 at 58 (Halama Direct).

<sup>602</sup> Ex. DOC-7 at 6-8 (Uphus Direct).

<sup>603</sup> Ex. DOC-7 at 7-8 (Uphus Direct).

<sup>604</sup> Ex. DOC-7 at 7 (Uphus Direct).

<sup>605</sup> Ex. Xcel-19 at 19 (Halama Rebuttal).

<sup>606</sup> Ex. Xcel-19 at 19 (Halama Rebuttal).

\$21.4 million in 2025 and \$10.4 million in 2026.<sup>607</sup> The Department subsequently reviewed Xcel's revised calculation and concluded that it appeared reasonable thereby resolving the issue.<sup>608</sup>

340. The Judge finds the agreement between the Department and Xcel regarding Production Tax Credits reasonable. Both parties concurred that updated February 2025 forecasts should replace outdated estimates, and Xcel's revised calculation accounting for solar PTC allocations was accepted by the Department, resolving the issue fairly and accurately.

## **2. North Dakota Investment Tax Credits**

341. Xcel also included the North Dakota Investment Tax Credit (NDITC) in the 2025 and 2026 test years. The credit reduces Xcel's North Dakota income taxes associated with the Company's Courtenay Wind Project. In this case, Xcel allocated a portion of the NDITC to Minnesota based on the pro-rata share of Courtenay Wind Project costs charged to Minnesota ratepayers.<sup>609</sup>

342. In direct testimony, the Department initially recommended reducing Xcel's proposed revenue requirements for the Minnesota Electric Jurisdiction to reflect what it believed was an updated NDITC forecast provided by the Company. The Department reasoned that using the most current forecast would ensure more accurate test-year amounts and prevent over-recovery from ratepayers.<sup>610</sup>

343. In response, Xcel stated that the Department's interpretation was incorrect. The Company explained that the information provided in response to the Department's data request did not represent an updated forecast, but confirmed the amounts already included in its direct testimony. Xcel asserted that no adjustment was necessary because both the forecasted credit amount and the associated revenue requirement remained unchanged.<sup>611</sup> After reviewing Xcel's clarification, the Department accepted the Company's explanation and withdrew its proposed adjustment. The Department concluded that Xcel's calculation of the NDITC was reasonable and that no further changes were needed, thereby resolving the issue.<sup>612</sup>

344. The Judge finds the resolution between the Department and Xcel regarding the NDITC reasonable. After clarification, both parties agreed no adjustment was necessary, and Xcel's original calculation accurately reflected test-year amounts.

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<sup>607</sup> Ex. Xcel-19, BCH-R-3 at 4 Halama Rebuttal).

<sup>608</sup> Ex. DOC-8 at 3 (Uphus Surrebuttal).

<sup>609</sup> Ex. Xcel-17 at 128 (Halama Direct).

<sup>610</sup> Ex. DOC-7 at 9-10 (Uphus Direct).

<sup>611</sup> Ex. Xcel-19 at 42 (Halama Rebuttal).

<sup>612</sup> Ex. DOC-8 at 4 (Uphus Surrebuttal).

### **3. Federal and State Research and Experimentation Tax Credits**

345. Xcel also receives state and federal qualified research and experimentation (“QREs”) credits for qualified research expenses incurred during the tax year. These credits reduce the Company’s federal and state tax expense when calculating the revenue requirement. In this case, Xcel proposed to include QRE credit amounts of approximately (\$4.48 million) for federal and (\$1.12 million) for Minnesota in each of the 2025 and 2026 test years.

346. In direct testimony, the Department recommended adjusting Xcel’s proposed credit amounts by using a more recent three-year average of qualified research expenses. Rather than rely on 2020–2022 data, the Department proposed using 2022–2024 figures, reasoning that older data may not accurately represent future credits. This adjustment aimed to provide a more accurate forecast for the 2025 and 2026 test years.<sup>613</sup>

347. Xcel responded that its original forecast was reasonable because it used the most recent IRS-qualified research activity available at the time of filing.<sup>614</sup> The Company noted that the Department’s requested update relied on a 2024 forecast that weighted 2022 and 2023 actuals more heavily, potentially skewing results. Xcel emphasized that its approach was consistent with standard practice and based on complete data available when the case was filed.<sup>615</sup>

348. After reviewing Xcel’s explanation and the updated actual 2024 tax information provided during surrebuttal, the Department accepted the Company’s calculation. The Department concluded that the updated three-year average for 2022 to 2024 closely aligned with Xcel’s proposed test-year amounts, making further adjustments unnecessary. As a result, the issue was resolved without changes to the Company’s original QRE credit forecast.<sup>616</sup>

349. The Judge finds the resolution between the Department and Xcel regarding QRE credits reasonable. After reviewing updated 2024 data, both parties agreed Xcel’s original forecast accurately reflected test-year amounts, resolving the issue without further adjustment.

#### **J. Fault Location Isolation and Service Restoration.**

350. In Xcel’s last rate case, the Commission approved the Company’s request to recover Fault Location Isolation and Service Restoration (“FLISR”) program costs for 2022 to 2024. In its 21-630 order, Commission articulated various requirements for future

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<sup>613</sup> Ex. DOC-7 at 12-13 (Uphus Direct).

<sup>614</sup> Ex. Xcel-19 at 40-41 (Halama Rebuttal).

<sup>615</sup> Ex. Xcel-19 at 40 (Halama Rebuttal).

<sup>616</sup> Ex. DOC-8 at 5-6 (Uphus Surrebuttal).

FLISR cost recovery. As part of this case, the Department concluded that the Company had complied with the Commission's FLISR filing requirements.<sup>617</sup>

351. Xcel's proposed FLISR performance incentive mechanism ("PIM"), however, is currently based on estimates because the Company is still deploying FLISR. Xcel does not expect deployment will be complete until 2027. To have three full years of data, the Company proposed that the FLISR PIM become effective January 1, 2032. In response, the Department recommended the Commission not approve the FLISR PIM at this time and continue to review the FLISR PIM in the performance-based ratemaking docket. The Department also recommended the Company continue to evaluate the FLISR PIM as part of future rate cases when the FLISR is fully deployed.<sup>618</sup>

352. Xcel agreed that the Department's recommendation that the Commission not approve a FLISR PIM at this time but continue to review the FLISR PIM in the PBR proceeding was reasonable.<sup>619</sup>

353. The Judge concurs with the Department and Xcel that it would be premature to approve a performance incentive mechanism for FLISR at this time. The Commission will be better situated to adopt any PIM appropriate after deployment is completed and a baseline of relevant data is available.

#### **K. Automatic Throw-Over/Manual Throw-Over Dual Feeder Service.**

354. Among other changes, Xcel proposed tariff changes related to recovery of costs for the reserve capacity the Company must maintain under the Automatic Throw-Over/Manual Throw-Over ("ATO/MTO") Dual Feeder Service.<sup>620</sup> ATO/MTO Dual Feeder Service is an optional service for customers who require a higher level of service reliability. The Company installs and/or reserves additional capacity in an alternative feeder, along with an ATO/MTO switch, which allows the alternate feeder to supply power and energy to the customer if the preferred feeder becomes de-energized. The Company maintains reserve capacity on the alternative feeder in the event it needs to be used by the customer.<sup>621</sup>

355. Customers are currently charged for duplicate facilities that are required to accommodate the ATO/MTO, along with design costs. Customers are not currently charged to reserve capacity to alternate feeders, even though it is reserved for these customers.<sup>59</sup> The costs associated with the reserved capacity are currently included in rate base, meaning they are paid for by all customers.<sup>622</sup> In this case, Xcel proposed to implement a charge for new ATO/MTO Dual Feeder Service customers, as well as current customers when their existing agreements expire, and the customer enters into a new

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<sup>617</sup> Ex. DOC-8 at 7 (Uphus Surrebuttal).

<sup>618</sup> Ex. DOC-8 at 7 (Uphus Surrebuttal).

<sup>619</sup> Ex. Xcel-35 at 42 (Mensen Rebuttal).

<sup>620</sup> Ex. Xcel-34 at 194 (Mensen Direct).

<sup>621</sup> Ex. Xcel-34 at 195 (Mensen Direct).

<sup>622</sup> Ex. Xcel-34 at 195 (Mensen Direct).

agreement. The charge will cover the cost to reserve alternate feeder capacity. This charge will be applied to the monthly billing statement, along with ongoing O&M costs associated with any new distribution facilities.<sup>623</sup>

356. The Department concluded that Xcel's proposal to recover costs associated with reserving alternate feeder capacity was reasonable because it is appropriate to recover these costs from the customers that are benefiting from this additional capacity. But because Xcel could estimate the associated reduction to base rates from making this change, the Department proposed the Company track revenues and report them in the next rate case as well as a forecasted budget of revenues for proposed test years. By tracking these revenues, the Department wants to ensure there is no double-recovery of the ATO/MTO Dual Feeder Service capacity fees.<sup>624</sup>

357. In response, Xcel agreed with the Departments recommendation to track revenues under the Company's ATO/MTO Dual Feeder contracts and associated compliance reporting in the Company's next rate case. Xcel also agreed to provide a forecast of future revenues in its next rate case.<sup>625</sup>

358. The Judge finds the Department's and Xcel's resolution reasonable. By aligning charges with beneficiaries, tracking revenues, and ensuring transparency in future rate cases, their approach appropriately addresses cost recovery for ATO/MTO Dual Feeder Service while protecting other customers from subsidizing specialized reliability service needs overall.

## **V. SALES FORECAST.**

359. Test-year sales volumes are important factors in calculating a utility's likely revenue deficiency because sales levels affect both revenues and expenses. In general, because sales levels are an integral input in calculating a utility's rates, the method of determining the sales levels must be reasonable. Therefore, a key part of determining just and reasonable rates is Xcel's demonstration that its proposed sales forecast is reasonable.<sup>626</sup>

360. Sales volume forecasts also are essential to the class cost of service study and rate design. In designing rates, test-year sales volumes are used to allocate costs in the CCSS, which is then used as guide to establish the revenue apportionment and other aspects of rate design. Moreover, when establishing final rates, the test-year sales volumes are used to determine the overall revenue requirements, as well as the individual tariff rates.<sup>627</sup>

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<sup>623</sup> Ex. Xcel-34 at 196 (Mensen Direct).

<sup>624</sup> Ex. DOC-7 at 26-27 (Uphus Direct).

<sup>625</sup> Ex. Xcel-35 at 50-51 (Mensen Rebuttal).

<sup>626</sup> Ex. DOC-14 at 2 (Shah Direct).

<sup>627</sup> Ex. DOC-14 at 2 (Shah Direct).

361. In this case, Xcel originally forecasted total retail electric sales of 28,309,961 MWh in 2025 – about 1.4% lower than 2023 actual sales, followed by a 3.8% increase in 2026 to 29,397,905 MWh.<sup>628</sup> Xcel attributed this forecasted growth to new large data center loads and increased electric vehicle (EV) adoption.<sup>629</sup> In rebuttal testimony, Xcel updated its 2026 sales forecast using actual sales data through May 2025 and the latest IHS Markit economic outlook.<sup>630</sup> The revised projection for 2026 total retail electric sales decreased by 1.4% compared to the forecast presented in direct testimony.<sup>631</sup>

**Comparison of Forecasts<sup>632</sup>**

<b>Sales Forecast Filed in Direct Testimony (MWh)</b>					
Year	Residential	Small C&I	Large C&I	Other	Total
2025	9,016,305	12,103,233	7,030,043	160,380	28,309,961
2026	9,088,001	12,067,289	8,081,034	161,580	29,397,905
<b>Updated Sales Forecast (MWh)</b>					
Year	Residential	Small C&I	Large C&I	Other	Total
2025	8,975,546	12,115,651	6,952,679	149,233	28,193,108
2026	9,230,383	11,930,041	7,668,414	156,459	28,985,297
<b>Change (MWh)</b>					
Year	Residential	Small C&I	Large C&I	Other	Total
2025	-40,759	12,418	-77,364	-11,147	-116,853
2026	142,382	-137,248	-412,620	-5,121	-412,607
<b>Percentage Change</b>					
Year	Residential	Small C&I	Large C&I	Other	Total
2025	-0.50%	0.10%	-1.10%	-7.0%	-0.40%
2026	1.60%	-1.10%	-5.10%	-3.20%	-1.40%

362. Reviewing the reasonableness of Xcel’s forecast, the Department identified several concerns relating to Xcel’s use of post-regression adjustments and the statistical validity of Xcel’s customer count models.

363. The Department questioned Xcel’s use of post-regression adjustments for Demand Side Management (DSM), EV adoption, and Beneficial Electrification (BE).<sup>633</sup> The Department emphasized that these adjustments introduce additional layers of estimation and uncertainty into the forecast. Because DSM and similar impacts can only

<sup>628</sup> Ex. Xcel-29 at 6 (Levine Direct).

<sup>629</sup> Ex. Xcel-29 at 5 (Levine Direct).

<sup>630</sup> Ex. Xcel-30 at 3 (Levine Rebuttal).

<sup>631</sup> Ex. Xcel-30 at 3-4 (Levine Rebuttal).

<sup>632</sup> Ex. Xcel-30 at 4 (Levine Rebuttal) (see Oct. 24, 2025 errata filing).

<sup>633</sup> Ex. DOC-14 at 10, 17-18 (Shah Direct).

be estimated the Department concluded that adjusting historical data compromises the integrity of the models.<sup>634</sup> Highlighting the volatility of these adjustments, the Department noted that Xcel's estimated DSM savings have varied significantly across recent rate cases. In this case, for example, Xcel's projected DSM impacts for 2026 increased from about 7.1 million MWh to more than 12.1 million MWh, a change of more than 70%.<sup>635</sup> Given that embedding these estimates into the sales forecast creates unnecessary complexity and risk of bias, the Department recommended using actual billing data rather than layering on separate adjustments.

364. Beyond raising concerns with Xcel's post-regression analysis adjustments, the Department questioned the statistical validity of Xcel's customer count models. Several models for residential (with and without space heating), public street lighting, and other public authority classes exhibited perfect R<sup>2</sup> values (1.00) and negative constants, which imply illogical outcomes such as predicting customer losses despite historical growth.<sup>636</sup> These anomalies, in the Department's view, undermine confidence in the models' predictive capability. The Department found similar issues in the updated 2026 forecast, where these statistical irregularities persisted across multiple classes, including Small Commercial and Industrial.<sup>637</sup>

365. Given its concerns, the Department supported Xcel's proposal to update its 2025 test-year forecast using actual data using the Department's weather normalization methodology without any DSM, EV, solar, or BE adjustments.<sup>638</sup> The Department further acknowledged that its concerns with the reliability of Xcel's 2026 forecast would be similarly resolved by continuation of the company's sales true-up mechanism which would ensure that 2026 rates reflect actual 2026 sales data.<sup>639</sup>

366. The Judge finds that the resolution to use actual 2025 weather-normalized sales and apply a 2026 true-up is reasonable and ensures accurate rates. The Department's criticisms of Xcel's forecasting approach, however, merit the Commission's attention. Xcel's reliance on speculative post-regression adjustments for DSM, EVs, and BE introduces unnecessary complexity and risk of bias. Further, customer models with perfect R<sup>2</sup> values and negative constants undermine confidence in forecast validity.

## **VI. RATE DESIGN.**

345. The purpose of rate design is to allocate Xcel's revenue requirement among the company's various customer classes. The first step in this process is to perform a Class Cost of Service Study (CCOSS) that can provide insight into the actual costs of serving different customer classes. These study results can then be used to inform

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<sup>634</sup> Ex. DOC-14 at 13, 17 (Shah Direct).

<sup>635</sup> Ex. DOC-15 at 5 (Shah Surrebuttal).

<sup>636</sup> Ex. DOC-14 at 18-19 (Shah Direct).

<sup>637</sup> Ex. DOC-15 at 6 (Shah Surrebuttal).

<sup>638</sup> Ex. DOC-15 at 7 (Shah Surrebuttal).

<sup>639</sup> Ex. DOC-15 at 7 (Shah Surrebuttal).

decisions about revenue apportionment and, ultimately, the rates customers pay for utility services.<sup>640</sup>

**A. Class Cost of Service.**

346. 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. 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.<sup>641</sup> 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.<sup>642</sup> In the third step, these functionalized and classified costs are “allocated” to specific customer classes using specific parameters known as “allocation factors.”<sup>643</sup>

347. There are many methods for classifying the costs of distribution lines, including the Minimum-Size Method, Zero-Intercept Method, and the Basic Customer Method.<sup>644</sup> Minimum-Size Method is based on actual data from the utility system and classifies costs as customer or demand.<sup>645</sup> The Zero-Intercept Method relies on regression analysis to estimate theoretical equipment that has zero capacity to transfer power, costs are classified as customer or demand.<sup>646</sup> The Basic Customer Method classifies distribution equipment that serves a specific customer as customer costs and the joint distribution equipment as demand related.<sup>647</sup>

348. Because these different methodologies can produce widely different results, the Commission has taken a holistic approach and indicated a preference for reviewing multiple methods for classifying the cost of distribution lines and equipment.<sup>648</sup> The Commission has explained, “No single cost-study method can be judged superior to all others in all contexts, and the choice among methods involves disputes overs assumptions, applications, and data.”<sup>649</sup>

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<sup>640</sup> Ex. DOC-19 at 6 (Bahn Direct).

<sup>641</sup> Ex. DOC-16, MZ-D-1 at 18-19 (Zajicek Direct).

<sup>642</sup> *Id.* at 20-21 (Zajicek Direct).

<sup>643</sup> *Id.* at 18-22 (Zajicek Direct).

<sup>644</sup> Ex. DOC-16 at 25 (Zajicek Direct).

<sup>645</sup> *Id.* at 26 (Zajicek Direct).

<sup>646</sup> *Id.* at 27 (Zajicek Direct).

<sup>647</sup> *Id.* at 28 (Zajicek Direct).

<sup>648</sup> *Id.* at 41 (Zajicek Direct).

<sup>649</sup> *In re Appl. of Otter Tail Power Co. for Auth. to Increase Rates for Elec. Serv. in the State of Minn.*, Docket No. E-017/GR-20-719, FINDINGS OF FACT, CONCLUSION, & ORDER at 44 (Feb. 1, 2022) (eDocket No. 20222-182349-01) (OTP 2022 Rate Case Order).

349. Here, the Department concluded that the Basic Customer Method and Xcel's Hybrid Minimum-System Study (a hybrid of the Minimum-Size Method and the Zero-Intercept Method) updated to use the D10S allocator derived results were sufficient reference points for the Commission's eventual decision.<sup>650</sup> The Department recommends the Commission continue to use the plant stratification method to classify and allocate production costs, consistent with past Commission decisions.<sup>651</sup> The plant stratification method assumes capital costs that higher than need for peak demand are substitutes for fuel cost and energy related.<sup>652</sup>

350. Consistent with the Department's recommendation, the Commission requires the Company to provide a study showing the costs of AMI meters compared to the costs of traditional meters as well as the difference in cost of reading both types of meters.<sup>653</sup>

## **B. Revenue Responsibility Apportionment and Rate Design.**

### **1. Revenue Apportionment**

351. Revenue apportionment is the first step of rate design.<sup>654</sup> 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.<sup>655</sup> 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.<sup>656</sup>

352. In apportioning revenue responsibility and designing rates, the Commission must balance competing principles and policies.<sup>657</sup> Rates should offer utilities a reasonable opportunity to earn their revenue requirements.<sup>658</sup> They should promote efficiency and conservation.<sup>659</sup> They also should promote renewable energy use.<sup>660</sup> And, they should avoid "rate shock" and unreasonable discrimination against any customer class.<sup>661</sup> In balancing these priorities, the Commission must resolve any doubts in favor of consumers.<sup>662</sup>

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<sup>650</sup> Ex. DOC-16 at 46 (Zajicek Direct).

<sup>651</sup> Ex. DOC-18 at 4 (Zajicek Surrebuttal).

<sup>652</sup> Ex. DOC-18 at 2 (Zajicek Surrebuttal).

<sup>653</sup> *Id.* at 5-6 (Zajicek Surrebuttal).

<sup>654</sup> Ex. DOC-19 at 18 (Bahn Direct).

<sup>655</sup> Ex. DOC-19 at 18 (Bahn Direct).

<sup>656</sup> Ex. DOC-19 at 19 (Bahn Direct).

<sup>657</sup> Ex. DOC-19 at 2-3 (Bahn Direct).

<sup>658</sup> Minn. Stat. § 216B.16, subd. 6 (2024).

<sup>659</sup> Minn. Stat. §§ 216B.03–.04 (2024).

<sup>660</sup> Minn. Stat. § 216C.05, subd. 1 (2024).

<sup>661</sup> Minn. Stat. §§ 216B.03, .07 (2024).

<sup>662</sup> Minn. Stat. § 216B.03 (2024).

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353. Xcel proposed to annually apportion approximately \$3.7 to \$4.0 billion in test-year revenues to its customers between 2025 and 2026.<sup>663</sup> To apportion this revenue, Xcel proposed to move customers 20% closer to cost each year based on the results of its Hybrid method derived CCROSS results.<sup>664</sup> The Department partially disagreed with Xcel. The Department agreed that it was appropriate to move 20% closer to cost for the 2025 test year based on Xcel’s Hybrid method results. The Department, however, disagreed with making additional movements in 2026 based on Xcel’s Hybrid method results due to rate shock concerns and to be consistent with past Commission decisions:

a. *Rate Shock.* The Department asserted that using a single revenue apportionment throughout the life of the multi-year rate plan reduces the risk of rate shock from the cumulative movements towards costs that Xcel proposed.<sup>665</sup> In support of its position, the Department stated that moving customers 20% to cost each year as the revenue requirement increases would mean even greater revenue responsibility for residential customers than applying the 2025 Test Year to the 2026 Plan Year revenue requirements. To illustrate its claim, the Department stated its recommendation would make residential customers responsible for 40.47% of \$3.994 billion in 2026, or \$1.616 billion.<sup>666</sup> By contrast, Xcel’s 2025 Test-Year apportionment would make residential customers responsible for \$1.601 billion.<sup>667</sup> This amounts to an approximately \$15 million difference.

b. *Prior Decisions.* The Department also asserted that using the same fixed revenue apportionments for the entire multi-year rate plan period is consistent with past Commission decisions.<sup>668</sup> In support of a fixed revenue apportionment, the Commission stated that “maintaining the same revenue apportionment for the duration of the MYRP will gradually move rates closer to the cost of service.”<sup>669</sup>

	2025	2026
Residential	40.13%	40.47%
Non-Demand	3.29%	3.39%
Demand	55.67%	55.23%
Street Lighting	0.90%	0.90%
Total	100.00%	100.00%

<sup>663</sup> Ex. Xcel-19, BCH-R-2 at 4 (Halama Rebuttal).

<sup>664</sup> Ex. Xcel-76 at 11 (Paluck Direct).

<sup>665</sup> DOC Initial Br. at 86-88.

<sup>666</sup> Ex. Xcel-77 at 10 (Paluck Rebuttal); Ex. DOC-20 at 10-11 (Bahn Surrebuttal).

<sup>667</sup> Ex. DOC-20 at 11 (Bahn Surrebuttal).

<sup>668</sup> Ex. DOC-20 at 5 (Bahn Surrebuttal).

<sup>669</sup> *In re Appl. of N. States Power Co. for Auth. to Increase Elec. Serv. Rates in Minn.*, Docket No. E-002/GR-21-630, FINDING OF FACT, CONCLUSIONS, AND ORDER at 114 (July 11, 2023) (eDocket No. 20237-197559-01).

354. The Judge concurs with the Department's recommended apportionment of revenue responsibility. The Department's recommendation reasonably moves customers to cost, but at a more gradual pace than proposed by Xcel. This approach reasonably balances the goals of economic efficiency and avoiding rate shock. It also is consistent with prior Commission decisions to use fixed revenue apportionment.

## 2. Residential and C&I Non-Demand Customer Charge

355. Xcel proposed to set the customer charge to \$11.00 for residential and C&I non-demand customers.<sup>670</sup> The company asserted that its proposal is necessary to better reflect customer-related costs – costs the company defines as “costs that do not change when a customer uses more or less electricity after connecting to the Company's system.”<sup>671</sup>

356. The Department disagreed with the company's proposed approach.<sup>672</sup> Instead, the Department asserted that its recommendations were consistent with applicable rate design principles. The Department pointed to the principles that rates: (1) should promote energy efficiency and conservation;<sup>673</sup> (2) should be designed to facilitate customer understanding;<sup>674</sup> and (3) provide the utility a reasonably opportunity to recover its revenue requirement.<sup>675</sup>

a. *Energy Conservation.* The Department asserted its recommendation will promote energy conservation.<sup>676</sup> The Department explained that customer bills have two major components: fixed customer charges and volumetric energy charges (based on kilowatt-hour ( $\phi$ /kwh) usage).<sup>677</sup> The customer charge is a fixed monthly amount paid by customers regardless of usage. A reduction to either of these charges will necessitate an increase to the other to ensure the utility still has an opportunity to recover its costs. The Department stated, “Because per-class revenue is fixed, intra-class rate design is a zero-sum game; if the fixed charge is increased, the per kWh rate must be lowered, and vice versa.”<sup>678</sup> The Department also pointed to a prior Commission decision that stated, “The most powerful tool for heightening conservation-consciousness is maintaining a clear link between consumption and cost. Customer charges, by definition, weaken this link.”<sup>679</sup> Given

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<sup>670</sup> Ex. Xcel-77 at 15 (Paluck Rebuttal).

<sup>671</sup> Ex. Xcel-76 at 15 (Paluck Direct).

<sup>672</sup> DOC Initial Br. at 88-89.

<sup>673</sup> DOC Initial Br. at 90.

<sup>674</sup> DOC Initial Br. at 90.

<sup>675</sup> Minn. Stat. § 216B.16, subd. 6 (2024).

<sup>676</sup> DOC Initial Br. at 90.

<sup>677</sup> Ex. DOC-19 at 30 (Bahn Direct).

<sup>678</sup> Ex. DOC-19 at 30-31 (Bahn Direct).

<sup>679</sup> *In re Appl. by CenterPoint Energy for Auth. to Increase Nat. Gas Rates in Minn.*, Docket No. G-008/GR-04-901, ORDER ACCEPTING & MODIFYING SETTLEMENT & REQUIRING COMPLIANCE FILING at 8 (June 8, 2005) (eDocket No. 2112919) (CPE 2005 Rate Case Order).

these considerations, the Department argued its recommendation to set lower customer charges will incentivize conservation by sparking an increase in the volumetric energy charge. The Department also asserted that it would create incentives for conservation because customers can more meaningfully reduce their bills through conservation when their total bill is largely the product of usage as opposed to fixed charges.<sup>680</sup>

b. *Customer Understanding.* The Department next asserted that its recommendation will further facilitate customer understanding and acceptance of their bills.<sup>681</sup> The Department again pointed to a prior Commission decision that recognized: “customer charges tend to confuse customers by impairing customer understanding of their energy bill.”<sup>682</sup>

c. *Revenue Stability.* Finally, the Department argued that its recommendation would not undermine Xcel’s revenue because of the proposed sales true-up mechanism.<sup>683</sup> The Department noted, revenue decoupling is a useful regulatory tool that adjusts ratepayers’ bills via a true-up in order for the utility to recover the difference between the actual revenue and the level of revenue approved for the utility in its rate case proceeding.<sup>684</sup> Thus, in the Department’s view, decoupling can be paired with lower customer charges to send price signals to customers encouraging energy conservation to the maximum reasonable extent.<sup>685</sup>

357. The Judge agrees with the Department’s recommendation to deny Xcel’s proposal to increase the fixed monthly customer charge for residential and C&I non-demand customers by \$5.00 as this is consistent with applicable rate design principles given that Xcel’s sales true-up will decouple energy sales and revenue.

## 2. Customer Satisfaction

358. The Department is interested in customer care management within Xcel. The Department notes that there appears to be a decline in customer transaction satisfaction survey results over the 2016-2025 time period for residential customers.<sup>686</sup>

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<sup>680</sup> Ex. DOC-19 at 40 (Bahn Direct).

<sup>681</sup> DOC Initial Br. at 90.

<sup>682</sup> 2021 Rate Case Order at 116-17.

<sup>683</sup> DOC Initial Br. at 90.

<sup>684</sup> Ex. DOC-19 at 11 (Bahn Direct).

<sup>685</sup> *Id.* at 10-11 (Bahn Direct).

<sup>686</sup> DOC Initial Br. at 91.

Table 6: Xcel Customer Complaints<sup>18</sup>

Year	Residential	Commercial	Industrial	Government	Total
2015	119	10	0	0	129
2016	92	10	0	0	102
2017	108	5	0	0	113
2018	236	11	1	0	248
2019	376	20	0	0	396
2020	218	19	1	1	239
2021	445	37	2	0	484
2022	602	31	1	1	635
2023	733	25	1	0	759
2024	1,436	31	1	0	1,468
2025*	612	24	2	0	638

*\*Information for 2025 is year-to-date up to July 15, 2025.*

359. The Judge agrees that Commission should open a new docket to address customer care issues or have Xcel include additional information on the scope and nature of billing errors and complaints in monthly reports submitted in Docket No. E, G-002/CI-25-341.

### 3. Residential Arrears Management Program

360. Xcel proposed a program to address affordability concerns, the Residential Arrears Management Program (“RAMP”). Xcel states this program is designed with customers that may not be eligible for Energy Assistance Program (“EAP”).<sup>687</sup> Xcel’s RAMP proposal relies on funding from residential late payment fees and eligibility would be based on certain criteria including income.<sup>688</sup> The Department recommends that the Commission approve the program only after making several modifications, including modifications to funding, participant criteria, and annual program status reports.<sup>689</sup>

361. The Judge agrees that the Commission should approve the RAMP program conditioned on the acceptance of the Department’s modifications.

362. Any Finding of Fact more appropriately designated a Conclusion of Law is hereby adopted as such.

## CONCLUSIONS OF LAW

1. The Commission and Judge have jurisdiction to consider this matter under Minn. Stat. § 14.50 and Minn. Stat. §§ 216B.08, .09, .15, and .16 (2024).

<sup>687</sup> Ex. DOC-19 at 62 (Bahn Direct).

<sup>688</sup> Ex. DOC-19 at 62 (Bahn Direct).

<sup>689</sup> Ex. DOC-20 at 29-30 (Bahn Surrebuttal).

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2. The public and the parties received proper and timely notice of the requested rate increase, the public and evidentiary hearings, and the public comment period.

3. Every rate made, demanded, or received by any public utility shall be just and reasonable.<sup>690</sup> Rates shall not be unreasonably preferential, unreasonably prejudicial, or discriminatory, but shall be sufficient, equitable, and consistent in application to a class of customers. In addition, 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).<sup>691</sup>

4. The utility bears the burden to show that the rate change is just and reasonable.<sup>692</sup> The utility must prove the facts required to sustain its burden by a fair preponderance of the evidence.<sup>693</sup> But the fair preponderance of the evidence standard applied in rate-case proceedings differs from that applied by courts in civil cases.<sup>694</sup> It is insufficient for the produced evidence to simply sustain the utility's position. The utility's position also must be consistent with the Commission's statutory responsibility to ensure just and reasonable rates for customers.<sup>695</sup> The utility always retains the burden of proving the reasonableness of the proposed rate change. No rebuttable presumption of reasonableness is created by a utility's submission of evidence on an issue.<sup>696</sup>

5. When determining the just and reasonable rates for public utilities, Minn. Stat. § 216B.16, subd. 6 (2024), directs the Commission to give due consideration to (a) the public need for adequate, efficient, and reasonable service; (b) the public utility's need 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 (c) the public utility's need to earn a fair and reasonable return upon the investment in such property.

6. In determining the rate base upon which the utility is allowed to earn a fair rate of return, the Commission shall give due consideration to (a) evidence of the cost of the property when first devoted to public use; (b) prudent acquisition costs to the public utility less appropriate depreciation on each; (c) construction work in progress; (d) offsets in the nature of capital provided by sources other than the investors; and (e) to other expenses of a capital nature.<sup>697</sup> For purposes of determining rate base, the commission

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<sup>690</sup> Minn. Stat. § 216B.03 (2024).

<sup>691</sup> Minn. Stat. § 216B.03 (2024).

<sup>692</sup> Minn. Stat. § 216B.16, subd. 4 (2024).

<sup>693</sup> *In re N. States Power Co.*, 416 N.W.2d 719, 722 (Minn. 1987).

<sup>694</sup> *In re N. States Power Co.*, 416 N.W.2d 719, 722 (Minn. 1987).

<sup>695</sup> *In re N. States Power Co.*, 416 N.W.2d 719, 722 (Minn. 1987).

<sup>696</sup> *In re N. States Power Co.*, 416 N.W.2d 719, 725–26. (Minn. 1987).

<sup>697</sup> Minn. Stat. § 216B.16, subd. 6 (2024).

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shall consider the original cost of utility property included in the base and shall make no allowance for its estimated current replacement value.<sup>698</sup>

7. The record supports the resolution of the settled, resolved, and uncontested matters set forth in this Report. These matters have been resolved in the public interest and are supported by substantial evidence.<sup>699</sup> After the hearing, if the Commission finds the utility's proposal not to be just and reasonable, the Commission must determine what rates will be charged and applied by the utility.<sup>700</sup>

8. In determining just and reasonable rates, the Commission must consider the following:

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.<sup>701</sup>

9. Any Conclusions of Law more properly designated as Findings of Fact are hereby adopted as such.

### RECOMMENDATIONS

Based on the foregoing Findings of Fact and Conclusion of Law it is recommended that the Commission:

1. Determine that Xcel is entitled to increase gross annual revenues in the manner and in the amount consistent with the Findings and Conclusions 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 to conform to the conclusions of the Report.

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<sup>698</sup> Minn. Stat. § 216B.16, subd. 6 (2024).

<sup>699</sup> Minn. Stat. § 216B.16, subd. 1a (2024)

<sup>700</sup> Minn. Stat. § 216B.16, subd. 5 (2024).

<sup>701</sup> Minn. Stat. § 216B.16, subd. 6 (2024).