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BEFORE THE MINNESOTA COURT OF ADMINISTRATIVE HEARINGS
600 North Robert Street
P.O. Box 64620
St. Paul, MN 55101

FOR THE PUBLIC UTILITIES COMMISSION OF THE STATE OF MINNESOTA
121 Seventh Place East, Suite 350
St. Paul, MN 55101-2147

In the Matter of the Application of Northern States Power Company d/b/a Xcel Energy for Authority to Increase Rates for Electric Service in the State of Minnesota	PUC Docket No. E002/GR-24-320, 321 CAH Docket No. 28-2500-40515

POST-HEARING REPLY BRIEF OF THE XCEL LARGE INDUSTRIALS

STOEL RIVES LLP
Andrew P. Moratzka
Amber S. Lee
Eden A. Fauré
33 South Sixth Street, Suite 4200
Minneapolis, MN 55402
Tele: (612) 373-8800
Fax: (612) 373-8881

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The following constitutes the post-hearing reply brief of BOMA Greater Minneapolis; Flint Hills Resources Pine Bend, LLC; Marathon Petroleum Corporation; and USG Interiors, Inc. (collectively, the "Xcel Large Industrials" or "XLI").[1]

I. INTRODUCTION

Northern States Power Company's, a Minnesota Corporation d/b/a Xcel Energy ("NSP" or "the Company") initial brief belies its primary concern in this proceeding—ensuring corporate profit. Roughly 70 pages of the Company's 300-page brief are dedicated to justifying its request for increases to its ROE, compensation, and benefits. This means nearly a quarter of the Company's initial brief is dedicated to arguing for increased earnings and compensation for achieving those earnings. The Company's demonstrated priority to increase profits at the expense of its customers encapsulates XLI's concerns in this matter and serves as further proof that the Company fails to meet its burden to demonstrate its MYRP proposal will result in just and reasonable rates for ratepayers.

Several parties submitted initial post-hearing briefing in this matter.[2] XLI agrees with the central theme of the intervenors' initial briefing, that the increases proposed in the Company's multi-year rate plan ("MYRP") are excessively high and unnecessary.[3] XLI raised similar concerns, especially as they relate to commercial and industrial ("C&I") Demand customers, in its initial brief. The Company has failed to meet its affirmative burden of proof to demonstrate its

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[1] XLI is an *ad hoc* consortium of C&I Demand class customers served by Northern States Power Company, d/b/a Xcel Energy ("NSP" or the "Company").

[2] Based upon interventions, written testimony, participation at the evidentiary hearing, and initial briefing, XLI understands that the parties in this case are (1) the Company (Company Initial Br. (Jan. 29, 2026) (eDocket No. 20261-227542-01) ("Company Initial Br.")); (2) XLI (XLI Initial Br. (Jan. 28, 2026) (eDocket No. 20261-227526-02) ("XLI Initial Br.")); (3) the Minnesota Department of Commerce, Division of Energy Resources ("Department" or "DOC") (Department Initial Br. (Jan. 28, 2026) (eDocket No. 20261-227521-01) ("Department Initial Br.")); (4) Minnesota Office of the Attorney General—Residential Utilities Division ("OAG") (OAG Initial Br. (Jan. 28, 2026) (eDocket No. 20261-227537-02) ("OAG Initial Br.")); (5) Citizens Utility Board of Minnesota ("CUB") (CUB Initial Br. (Jan. 28, 2026) (eDocket No. 20261-227535-02) ("CUB Initial Br.")); (6) Suburban Rate Authority ("SRA") (SRA Initial Br. (Jan. 28, 2026) (eDocket No. 20261-227541-01) ("SRA Initial Br.")); (7) Walmart Inc. (Walmart Inc. Initial Br. (Jan. 28, 2026) (eDocket No. 20261-227525-01) ("Commercial Group Initial Br.")); and (8) the Joint Intervenors ("JI") (JI Initial Br. (Jan. 28, 2026) (eDocket No. 20261-227538-01) ("JI Initial Br.")).

[3] *See* OAG Initial Br. at 1, DOC Initial Br. at 1.

requested revenue requirement increases, such as its 10.30% return on equity ("ROE") and increased ratepayer contributions for incentive compensation.

Parties generally agree that NSP's requested increases are unreasonable, but parties disagree what class cost of service study ("CCOSS") and revenue apportionment should be used in this proceeding. XLI's initial brief provides evidentiary support for cost-based rates grounded in the Average and Excess – Four Coincident Peak ("AED-4CP") methodology. Therefore, XLI's reply brief responds to the arguments raised in initial briefs regarding (1) the appropriate revenue requirement revenue and (2) the appropriate allocation methodology.

II. ANALYSIS

A. REVENUE REQUIREMENT: The ALJ Should Recommend Rejections to Many Components of NSP's Proposed Rate Increase

1. The ALJ Should Recommend XLI's Proposed ROE of 8.96%

The Company's MYRP includes a proposal for an ROE of 10.30%.[4] Based on the testimony of XLI Witness Billie LaConte, XLI supports adoption of an ROE of 8.96%.[5] In its principal brief, NSP lodges economic modeling critiques of XLI's ROE recommendation: (1) Witness LaConte gave no weight to her CAPM results;[6] (2) Witness LaConte's analysis differs from that used in Xcel's last case and applies unconventional methodologies;[7] (3) Witness LaConte's application of the Two-Growth DCF methodology is inconsistent with Commission practice;[8] and (4) Witness LaConte's recommended adjustments are not supported by the record.[9] NSP's narrow criticisms and analysis fail under the broad standard all parties agree is applicable. XLI's reply brief on this issue will first address that standard and then explain why the ALJ should disregard NSP's arguments.

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4 Ex. Xcel-24 at 4:27-5:1 (Nowak Direct).

5 Ex. XLI-2 at 3:7-9 (LaConte Direct).

6 NSP Initial Brief ("Br.") at 32.

7 NSP Initial Br. at 32-33, 34-35.

8 NSP Initial Br. at 33.

9 NSP Initial Br. at 36-38.

Both Witness LaConte and Witness Nowak acknowledge that there is an element of subjective judgment that factors into recommending an ROE.[10] Quoting the *Bluefield* case, NSP emphasizes that an ROE "*must be determined by the exercise of fair and enlightened judgment*."[11] And CUB witness Kihm testified that "the ROE is a public policy variable that has financial implications, but there are other factors that drive that return."[12] In short, the determination of a proper ROE is a pragmatic exercise in which the agency establishes a reasonable value that considers:

> 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.[13]

These same principles of sufficiency, adequacy, and fair and reasonable appear NSP's testimony and its brief. In its brief, NSP asserts:

> This clear body of case law calls for the ALJ and Commission to allow for a cost of capital that is:
>
> - Adequate to allow the Company to attract the capital necessary to provide safe and reliable service;
> - Sufficient to ensure the Company's ability to maintain its financial integrity; and
> - Comparable to returns on investments in other enterprises having similar risk (i.e., fair and reasonable).[14]

Because the issues of capital structure and the cost of short-term and long-term debt are not at issue in this proceeding, the only cost of capital issue is to establish a sufficient, adequate, and fair

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10 *See* Ex. Xcel-24 at 34:23-35:4 (Nowak Direct) (explaining his process of selecting various models to consider when determining the appropriate cost of equity); Ex. XLI-2 at 28:6-10 (LaConte Direct) (explaining her use of a risk adjustment).

11 NSP Initial Br. at 15 (quoting *Bluefield Water Works & Improvement Company v. Public Service Commission of West Virginia*, 262 U.S. 679, 692, (1923)) (emphasis in Xcel Brief).

12 Ex. CUB-1 at 21:17-19 (Kihm Direct).

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

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

and reasonable ROE.[15] NSP's four critiques of XLI's analysis fail for two overarching reasons. First, NSP's arguments are entirely focused on the financial modeling for comparability and ignore what is adequate to attract capital and sufficient to maintain financial integrity. Second, NSP's assertions on financial modeling are premised on the Company's direct and rebuttal testimony, and thus overlook XLI's surrebuttal testimony.

a. An ROE of 8.96% is Adequate to Allow the Company to Attract Capital and Sufficient to Ensure the Company Maintains Financial Integrity

The determination of a proper ROE is a pragmatic exercise in which the agency establishes a reasonable value that considers 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.[16] Despite specifically asserting that two pillars of the cost of capital determination include adequacy in attracting capital and sufficiency in maintaining financial integrity, the Company's brief and opposition to XLI's position focuses on financial analysis. To wit, the alleged "uncontestable facts" summarized in NSP's brief amount to nothing more than pointing to fluctuating ROE determinations and various financial metrics.[17] Critically, there are also uncontestable facts that maintaining the existing ROE of 9.25%, or reducing it per XLI's recommendation, would neither harm the Company's access to capital nor detrimentally impact its financial integrity.

NSP admitted it has had no difficulty accessing capital with its existing ROE of 9.25%. Company Witness Nowak's testimony that investors had a negative perception from the Commission's 9.25% ROE determination in the last rate case, is inconsistent with the reality that investors continued to invest in NSP despite any "negative perception." The Company acknowledged that "NSP has not experienced difficulties accessing capital markets since its last

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15 NSP Initial Br. at 19.

16 Minn. Stat. § 216B.16, subd. 6.

17 NSP Initial Br. at 29.

litigated base rate case.[18] In other words, an ROE of 9.25% has been at least adequate (if not more than adequate) in allowing NSP to access capital.

Furthermore, the evidence shows an ROE of 8.96% would not negatively impact the Company's financial integrity. Here again, Witness LaConte refuted Witness Nowak's testimony. As shown in Table 1 and 2 below, an ROE of 8.96% would allow the Company to stay within the rating agency guidance for all of the metrics used.

Table 1: NSPM's Credit Metrics – S&P Methodology

Table 1
NSPM's Credit Metrics – S&P Methodology
Using 8.96%, 9.2%, and 9.5% ROE

Description	9.2% ROE	9.5% ROE	Delta	8.96% ROE	S&P Guidance
FFO/Debt	[TRADE SECRET DATA BEGINS...				13% - 23%
Debt/EBITDA					3.5 - 4.5
FFO/Interest					3 - 5
EBITDA/Interest				..TRADE SECRET DATA ENDS]	2.75 - 5

Source: NSPM Response to XLI-33 Attachment A (Trade Secret); Direct Testimony of Todd A. Wehner, Exhibit TAW-1, Schedule 11 at 1.

Table 2: NSPM's Credit Metrics – Moody's Methodology

Table 2
NSPM's Credit Metrics – Moody's Methodology
Using 8.96%, 9.2%, and 9.5% ROE

Description	9.2% ROE	9.5% ROE	Delta	8.96% ROE	Moody's Guidance
CFO pre-WC/Debt	[TRADE SECRET DATA BEGINS...				22% - 30%
CFO pre-WC + Interest/Interest					4.5-6
CFO pre-WC-Dividends/Debt					17% - 25%
Debt/Book Capitalization				...TRADE SECRET DATA ENDS]	33% - 45%

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

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

Based on this analysis, Witness LaConte testified that NSP's "credit metrics would still fall within the recommended ranges if the Commission authorizes my recommended 8.96% ROE."[19] This testimony should be given weight because similar testimony from Witness LaConte in the Company's last rate case proved correct[20]—Witness LaConte's prediction that NSP would be able to attract capital at 9.17% (which was 11 basis points higher than its previously authorized ROE) proved true. An ROE of 8.96% is sufficient to maintain the Company's financial integrity.

b. The Company's Attacks on Witness LaConte's Economic Modeling Lack Merit

Given the fact that the record is devoid of any evidence supporting the Company's bold assertions that it needs a 105 basis-point increase to attract capital and maintain financial integrity, NSP devotes its brief to raising baseless arguments on economic modeling. Each of the Company's arguments is addressed, in turn, below.

The Company inaccurately argues that Witness LaConte gave no weight to her CAPM results.[21] In response to Witness Nowak's assertion on this issue, Witness LaConte testified:

> Although my recommendation *primarily* relies on my DCF results, it is *informed* by my CAPM analysis…Consistent with [the Commission's] long-standing policy, I relied primarily on the DCF model; accordingly, my recommended ROE of 8.96% is appropriate and fully aligned with Commission precedent.[22]

The ALJ should thus disregard Witness Nowak's testimony on this issue.

In an apparent attempt to mandate a formulaic application of ROE analysis, the Company mischaracterizes Witness LaConte's analysis by asserting that it differs from that used in Xcel's last case and applies unconventional methodologies.[23] But Xcel introduced evidence demonstrating that, just like the last case, Witness LaConte's recommended ROE, even with

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

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

21 Xcel Initial Br. at 32.

22 Ex. XLI-8 at 6:4-9 (LaConte Surrebuttal) (emphasis in original).

23 Xcel Initial Br. at 32-33, 34-35.

adjustments, fell within her estimated range. In the Company's last general rate case, Witness LaConte testified, "Based on my analyses, I have calculated an ROE range of 7.23% - 14.46%...the average is 9.60%. My recommended ROE is 9.17%, which is the midpoint of my DCF analyses, including my assessment of NSP's risk factors, and subsequent adjustment as discussed later."[24] In the current general rate case, Witness LaConte testified,

> Based on my analyses, I have calculated an ROE range of 8.29% - 11.84%...The average of the nine estimated ROEs is 9.80%...The average ROE using the DCF methodology is 9.56%. My recommended ROE is 8.96%, which is the average of my DCF analyses, including my assessment of NSPM's risk factors, and subsequent adjustments, as discussed later.[25]

Again, Witness Nowak acknowledged that there is an element of subjective judgment that factors into recommending an ROE.[26] NSP's complaint that Witness LaConte utilized different methodologies than its witness and utilized an average calculation as opposed to a midpoint approach is directly contrary to Witness Nowak's assertion that subjective judgment should be applied to "as much relevant data (both quantitative and qualitative) as can reasonably be obtained."[27] The Company may disagree with Witness LaConte's subjective judgment in utilizing the analyses, but the Company has not introduced any credible evidence to state why that subjective judgment is incorrect.

The Company also wrongly asserts that Witness LaConte's use of the Two-Growth DCF methodology is inconsistent with Commission practice.[28] NSP's attempt to characterize Witness LaConte's analysis as "far removed" from Commission practice was squarely addressed in Witness LaConte's surrebuttal testimony. There, she testified

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[24] Ex. Xcel-100 at 15:2-6 (Direct Testimony and Associated Errata of Billie S. LaConte in Docket No. 21-630).

[25] Ex. XLI-2 at 18:2-7 (LaConte Direct).

[26] Ex. Xcel-24 at 34:23-35:4 (Nowak Direct) ("I gather and evaluate as much relevant data (both quantitative and qualitative) as can be reasonably obtained. This approach ensures that factors that may have an outsized impact on one particular model but not others, and therefore are potentially less relevant to the equity return required by investors, are appropriately contextualized.").

[27] Ex. Xcel-24 at 34:23-35:4 (Nowak Direct)

[28] NSP Initial Br. at 33.

> **Q Please comment on Mr. Nowak's claim that your two-stage DCF analysis is not in conformance with the Commission's preferred methodology.**
> A. My two-stage DCF analysis is similar to the Federal Energy Regulatory Commission's (FERC's) two-step methodology. Using the Commission's two-stage DCF methodology produces a 10.37% ROE, which is in the range of my DCF results (8.29% - 11.84%). The calculations of a 10.37% ROE are provided in my Surrebuttal **Schedule 1**.
> **Q Why did you use the FERC two-step methodology?**
> A I used the FERC two-step methodology because it is more common across the country. However, using the Commission's methodology demonstrates that the results of my DCF analyses are reasonable.[29]

Blending commentary on the multi-stage DCF and two-stage DCF, the Company asserts that the Commission "has never incorporated a long-term GDP growth rate into the analysis."[30] As was established during cross-examination, Witness Nowak's quote of the Commission's order from the last rate case on page 71 of his rebuttal testimony allegedly supporting this assertion was, in fact, the Commission summarizing the ALJ's recommendation to adopt a 9.87% ROE—not the Commission's decision to adopt a 9.25% ROE.[31] Here again, the ALJ should disregard the Company's arguments.

Finally, the Company ignores the record evidence in asserting Witness LaConte's recommended adjustments are not supported.[32] Notably absent from the Company's argument in brief is Witness Nowak's concession during cross-examination that the Commission, in its last rate case order, found value in XLI's arguments that Xcel's investors face lower levels of risk because of multi-year rate plans and riders.[33] As Witness LaConte testified again in this proceeding,

> NSPM has *numerous* adjustment clauses and riders at its disposal, in addition to the sales true-up and the MYRP, all of which reduce regulatory lag and allow NSPM to increase its rates for two years without filing a rate case. As examples, NSPM's riders include, but

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

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

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

32 NSP Initial Br. at 36-38.

33 Hearing Tr. Vol. 1, 66:19-67:3.

> are not limited to, the following: Conservation Improvement Program Adjustment Rider; Environmental Improvement Rider; State Energy Policy Rate Rider; Renewable Development Fund Rider; Transmission Cost Recovery Rider; and Renewable Energy Standard (RES) Rider – all of which are adjusted annually. Additionally, NSPM has the ability to implement interim rates, which allows it to receive an increase in rates prior to the Commission issuing an order on its rate case and, furthermore, uses a projected test year when setting rates. All of these contribute to reduced regulatory lag and reduced financial risk. Therefore, my recommendation to reduce NSPM's ROE by 50-basis points is well reasoned.[34]

Notably, not all of these riders are specifically referenced in Schedule 10 to Witness LaConte's direct testimony. Furthermore, the record demonstrates these cost recovery mechanisms are driving earnings per share ("EPS"). As noted in XLI's initial brief, over 50% of the increase in EPS for Xcel Energy, Inc. from $3.21 in 2023 to $3.44 in 2024 was due to NSP increasing its EPS by $0.13 from $1.28 to $1.41.[35] According to the 10-K, "[*o*]*ngoing earnings [for NSP] increased due to higher recovery of electric and natural gas infrastructure investments*, partially offset by increased depreciation and interest charges."[36] This tie between cost-recovery, EPS, and reduced risk provide further support for Witness LaConte's 50 basis-point ROE reduction.

Furthermore, Witness LaConte's separate 10 basis-point reduction for poor customer service is well-reasoned and supported by the record. Rather than deny the poor customer service identified in Witness LaConte's testimony or documented in the July 2, 2025 public comment submitted by BOMA, the Company chooses ignorance, asserting that it is somehow BOMA's burden to specifically identify which members the Company has, for example, overbilled or failed to timely bill.[37] To be sure, it is the Company's burden to demonstrate that its rate requests are

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34 Ex. XLI-8 at 12:3-15 (LaConte Surrebuttal) (emphasis in original).

35 Ex. DOC-26 at 26 (Xcel Energy Inc.'s 2024 Form 10-K).

36 Ex. DOC-26 at 26 (Xcel Energy Inc.'s 2024 Form 10-K) (emphasis added).

37 NSP Initial Br. at 79-80.

reasonable and that it is meeting its service quality requirements.[38] It has not done so here and a 10-basis point reduction to the ROE is an appropriate remedy.[39]

2. The ALJ Should Deny the Proposed Increase for NSP's Annual Incentive Program

The Company seeks an unsupported increase to the cap on recovery for its Annual Incentive Program ("AIP"), which it argues "provides benefits for customers by tying a portion of compensation to performance of specific customer-centric metrics."[40] The benefits it contends apply to ratepayers are categorized into various Key Performance Indicators ("KPIs") focused on "reliability, safety, and customer satisfaction."[41] The Company states that its AIP compensation is based on both the achievement of individual performance goals as well as achievement of KPIs.[42] Despite the Company's assertion, XLI's initial brief shows that the true benefits confer largely on the Company, which does not release the AIP to eligible employees unless and until a preset EPS target is achieved.[43] In fact, if employees achieve KPIs but the Company does not achieve its EPS target, the AIP will not be paid out.[44] Therefore, whether or not "customer-focused" KPIs are achieved by employees has no bearing on whether employees will achieve an AIP. Any benefits that would otherwise be conferred on customers are effectively nullified because the incentive to achieve AIP is focused solely on achievement of EPS, rather than customer-directed KPIs. Because customers do not benefit from the AIP, the ALJ should reject the proposed increase to 20 percent of base pay.

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38 Ex. XLI-7 at 19:3-8 (LaConte Surrebuttal).

39 *See In the Matter of the Application of Otter Tail Power Company for Authority to Increase Rates for Electric Service in Minnesota*, Docket No. E-017/GR-15-1033, Findings of Fact, Conclusions, and Order at 55 (May 1, 2017) (authorizing an ROE for Otter Tail Power above the mean based on "its record of effectively serving the needs of its customers, as measured by multiple customer-satisfaction metrics.").

40 NSP Initial Br. at 96.

41 NSP Initial Br. at 97.

42 NSP Initial Br. at 96-97.

43 NSP Initial Br. at 100-01.

44 Tr. Vol. 1 at 148:19-25 (Ly).

NSP asserts that increasing the AIP cap to 20 percent would "be consistent with the AIP caps of other Minnesota utilities."[45] This argument ignores the evidentiary support XLI put forth showing why other utilities with a 20% cap are not comparable to NSP. For example, while the Commission approved a 20% AIP cap for Minnesota Power, the context for that decision differs from the context in NSP's case. With regard to Minnesota Power, the Commission determined the absence of skewed incentives in favor of shareholders made the increased AIP appropriate. However, these skewed incentives are present in NSP's AIP, which does not trigger until the EPS target is hit. The Company's EPS has increased steadily annually since at least 2015, which directly benefits shareholders.[46] The fact that the Company's AIP is skewed to financial results is a fatal flaw in its request to increase its cap to 20% like the Commission approved for Minnesota Power.

Other parties advocate for rejection of the increase. The Department recommends no increase to the AIP cap, noting the Commission's history of limiting recovery for short-term incentive compensation to 15% of an employee's base salary.[47] The Department highlighted the Commission's rejection of this same proposal in the Company's most recent rate case, where its rejection hinged on the fact that the Company'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."[48] The Company has provided no evidentiary support that that reality is not the case here, and provides no evidence that the circumstances have changed such that its AIP program is no longer subject to a dispositive earning-per-share threshold. The Department agrees that the Company's AIP program "continues to incentivize employees to act in shareholders', not ratepayers' interests because an earnings-per-share threshold must still be met before payouts occur."[49] Similarly, the OAG agrees that AIP compensation "is fundamentally

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45 NSP Initial Br. at 99.

46 *See* Table 11, Xcel Energy Historical EPS, at Ex. XLI-2 at 45:6-8 (LaConte Direct).

47 DOC Initial Br. at 48.

48 DOC Initial Br. at 48 (citing 2021 Rate Case Order at 19).

49 DOC Initial Br. at 49.

predicated on maximizing shareholder value," on the basis that the Company must reach its EPS target prior to any employee receiving AIP compensation.[50]

As set forth above, the Company fails to satisfy its burden to show its proposed increase of the incentive compensation cap to 20% is just and reasonable, or will produce just and reasonable rates. Therefore, XLI respectfully urges the ALJ to recommend disallowance of the Company's proposed incentive compensation expense above the 15% cap, representing a reduction to the incentive compensation amount to $21.9 million in 2025, and to $22.6 million in 2026.[51]

3. The ALJ Should Reject the Company's Proposed Recovery for its Long-Term Incentive Compensation Program

The Company seeks recovery of the environmental and time-based components of its Long-Term Incentive ("LTI") Compensation expense, components which comprise 40 percent of the Company's total LTI compensation expense.[52] Its request would allow recovery of $11.5 million in LTI for 2025 and $12.1 million in 2026.[53] In its initial brief, the Company claims that LTI compensation is needed to "make overall compensation amounts market competitive…."[54] Further, the Company appears to argue that it should be allowed recovery of environmental LTI compensation, despite its goals aligning with what the state already requires, simply because achieving state-set goals "will not be simple."[55] The threshold for recovery from ratepayers cannot be simply that something will be challenging to accomplish. XLI reaffirms its belief that this recovery is not justified given the Company is already required to achieve these same or similar goals under Minnesota's Carbon-Free Standard ("CFS"), requiring "an electric utility to generate or procure electricity from carbon free technologies in an amount equivalent to 100% of the utility's electric sales to retail customers in Minnesota."[56] The Department and OAG share this sentiment, pointing out the Commission allows no other Minnesota utility to charge ratepayers for

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50 OAG Initial Br. at 31.

51 Ex. Xcel-65 at Exhibit __ (YL-2), Schedule 4 at 1 (Ly Rebuttal).

52 NSP Initial Br. at 103.

53 Ex. XLI-2 at 48:3-4 (LaConte Direct).

54 NSP Initial Br. at 104.

55 NSP Initial Br. at 106.

56 Minn. Stat. § 216B.1691, subd. 2g (2024).

LTI compensation, and noting the Commission's denial of this same request from the Company in its last rate case.[57] The OAG argues that LTI demonstrates "the primacy of shareholder value over ratepayer needs."[58] The Department advocates for outright denial of NSP's request for recovery of LTI.[59] Because LTI provides no incremental benefits to ratepayers, and seeks to reward the Company for actions already required by law, XLI requests denial of the Company's proposal for cost recovery of LTI.

4. The ALJ Should Not Allow the Company to Recover O&M Expenses That Are Repeatedly Budgeted Above Historical Spending

The Company continues to propose recovery of its Energy Supply O&M expense ($122.3 million and $140.7 million in 2025 and 2026, respectively) and its Transmission O&M expense ($18.9 million and $19.4 million in 2025 and 2026, respectively). XLI continues to believe this proposal is unreasonable and warrants adjustment because the Company's historical performance consistently falls short of budgeted expenses.

In its initial brief, the Company asserts XLI's recommendation to reduce its Energy Supply O&M should be rejected because it ignores the Company's evidence that "explain[s] past deviations between rate case approved amounts and actuals," and ignores the Company's evidence supporting the reasonableness of these budgets.[60] The Company attempts to rebut XLI's evidence that NSP's actual O&M expenses for 2022 to 2024 were lower than the amount budgeted and approved in its previous rate case, citing three factors: "delays in the in-service date for Sherco Solar I and II, waking damage payments, and liquidated damage payments."[61] The Company ignores that these divergences do not make up for its historical overbudgeting issue, which unreasonably takes from ratepayers to effectively create a discretionary fund for the Company.

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57 DOC Initial Br. at 45 (citing 2021 Rate Case Order at 15); OAG Initial Br. at 30-31 (citing *In re Application of N. States Power Co. for Auth. to Increase Its Rates for Elec. Serv. in the State of Minn.*, Docket No. E-002/GR-92-1185, FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER at 25-30 (Sept. 29, 1993); *In re Application of N. States Power Co. for Auth. to Increase Its Rates for Elec. Serv. in the State of Minn*., Docket No. E-002/GR-92-1185, ORDER AFTER RECONSIDERATION (Jan. 14, 1994); Ex. Xcel-62, YL-1, sched. 4 at 8 (Ly Direct). Ex. Xcel-62, YL-1, sched. 4 at 8 (Ly Direct)).

58 OAG Initial Br. at 31.

59 DOC Initial Br. at 46.

60 NSP Initial Br. at 64.

61 NSP Initial Br. At 64.

The Company states these deviations support the reasonableness of its proposal. That is not the case. XLI has presented strong evidentiary support for the fact that the Company has a history of recovering from ratepayers unnecessarily for years. As for the Company's historical underspending, XLI explains how the fundamental process the Company uses to set its Energy Supply O&M expense is flawed.[62] Because the Company uses a projected test year (as opposed to historical test year where costs are known) to set rates for customers, customers are disadvantaged because use of a projected test year can result in excessive or biased projections.[63] Additionally, the Company has a fail safe mechanism to ensure it can recover costs it incurs above its predicted expenses: a true-up mechanism.[64] The mechanism allows the Company to incur costs beyond its budgeted expenses and still recover those costs. Therefore, the Commission is able to both approve lower budgeted Energy Supply O&M costs, protect ratepayers, and ensure the Company can be made whole for expenses incurred.

Regarding Transmission O&M, the Company anticipates an $18.9 million Transmission O&M expense for 2025, and $19.4 million for 2026.[65] Both XLI and the Department have recommended a reduction in the Company's proposal. Unsurprisingly, the Company believes the reasoning behind XLI and the Department's reasoning should be rejected.[66] The Company contends that internal reorganization changes caused its 2022-24 actual Transmission O&M expense to be lower than the approved amounts, and thus its increase in budgeted expenses is justified. This argument is essentially the same one the Company makes regarding Energy Supply O&M and is similarly insufficient to meet its burden to show these costs are reasonable. NSP's approved amount for Transmission O&M should track its historical spending, not provide excess funds for the Company's discretionary use. Ratepayers should not be made to serve as a bank for regulated monopolies. The Company's contention that "while O&M expense for Transmission could run lower than forecasted, other business units could experience pressures that require O&M expense greater than forecasted, and the net result at the Company level could be closer to the

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62 XLI Initial Br. at 25.

63 Ex. XLI-8 at 13:22-25 (LaConte Surrebuttal).

64 *See* Ex. XLI-8 at 14:9-15 (LaConte Surrebuttal).

65 Ex. XLI-2 at 52:3-4 (LaConte Direct).

66 NSP Initial Br. at 67.

authorized budget" is similarly inappropriate.[67] Captive ratepayers should not be squeezed to provide more funds such that the utility may use money as it pleases. If the Company knew it could recover more than necessary in this manner, it would encourage sloppy budgeting and encourage recovery of funds for expenses not explicitly approved in its rate case, and for which it has not demonstrated that ratepayers will benefit.

Similar to XLI, the Department argued that the Company's Transmission O&M expenses should be reduced, arguing such costs should reflect consistent decline in year-over-year expenses.[68] The Department provides evidence that "the company over-estimated its expenses in this category every year from 2022 through 2024, collecting $11.4 million more from ratepayers than it spent on Transmission O&M expenses."[69] This is the same argument XLI has raised with regard to both NSP's Energy Supply and Transmission O&M expenses. Sufficient evidentiary support exists to show the Company has a track record of overbudgeting for these expenses and wrongfully recovering more from ratepayers than is allowed. This historical practice is inappropriate and may result in unjust and unreasonable rates. The ALJ should recommend the Commission reduce the Company's Energy Supply and Transmission O&M expenses to match historical spending.

5. The ALJ Should Reject the Company's Request for Increased Excess Liability Insurance

The Company is allocated a portion of Xcel Energy, Inc.'s purchase of Excess Liability Insurance ("ELI") as part of its aggregated insurance. [70] Since its last rate case, NSP's allotment of that ELI expense increased dramatically by 160%.[71] In its initial brief, the Company asserts it has "provided robust support for its prudently-incurred insurance costs, including its costs for excess liability insurance," claiming it should be allowed recovery of the entirety of its insurance premium costs.[72] Based on XLI's analysis and the evidence it provided in testimony and briefing,

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67 NSP Initial Br. at 73.

68 DOC Initial Br. at 74.

69 DOC Initial Br. at 75 (citing Ex. DOC-5 at 6 (Golden Direct)).

70 Ex. XLI-2 at 54:7-10 (LaConte Direct).

71 Ex. XLI-2 at 54:16-18 (LaConte Direct).

72 NSP Initial Br. at 125.

the Company has not demonstrated that recovery of the entire ELI amount from ratepayers is appropriate. XLI Witness LaConte produced Table 14 of her direct testimony to show the stark difference between NSP's ELI expenses from 2014 through 2026. While increases due to heightened wildfire risk and mitigation costs may explain such dramatic increases for Xcel Energy, Inc.'s subsidiaries in the West, the same reasoning does not apply to NSP where the risk of wildfire is dramatically lower. Both the Department and XLI recommend reduction of the Company's recoverable insurance expense. The Company characterizes as "unsupported" XLI's concern that NSP ratepayers are subsidizing the ratepayers in other Xcel service territories.[73] First, the Company ignores the evidence XLI puts forth that shows this to be a real concern, that "[s]ince 2015, **[TRADE SECRET DATA BEGINS…** [redacted] … **TRADE SECRET DATA ENDS].** This reality exists alongside a 160% increase in the Company's ELI expense. It is not a stretch to be concerned that NSP customers are subsidizing costs from other jurisdictions. NSP and its customers should only be responsible for their fair share of the ELI premium and should not shoulder increased ELI expenses due to wildfire activity in other territories in the country.[75] XLI is not the only party with this concern. The Department also raises the concern that the Company has "offered completely inadequate evidence in support of its argument that Minnesota ratepayers are not negatively impacted by the Marshall Wildfire in Colorado and the 2024 Smokehouse Creek Fire Complex in Texas."[76] It notes the Company's explicit acknowledgement that "these wildfires . . . have changed the insurance market and raised costs for ELI coverage overall."[77]

The Company should only be permitted to recover proposed costs that it establishes are reasonably needed to deliver safe, reliable, and affordable electric service to its ratepayers. The Company has failed to do so here, offering insufficient evidence to show its ELI proposal is reasonable. XLI requests the ALJ reduce NSP's ELI expense to **[TRADE SECRET DATA**

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73 NSP Initial Br. at 127.

74 Ex. XLI-2 at 56:18-20 (LaConte Direct).

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

76 DOC Initial Br. at 42.

77 Ex. Xcel-56 at 9 (Miller Rebuttal); Evid. Hrg. Tr. Vol. 1 at 252–56 (Miller).

BEGINS…[redacted]…TRADE SECRET DATA ENDS], for 2025, and **[TRADE SECRET DATA BEGINS…[redacted]…TRADE SECRET DATA ENDS]** for 2026, as calculated by Witness LaConte in her surrebuttal testimony.[78]

6. The ALJ Should Reject the Department's Depreciation Proposal as Premature

The Department proposes to adjust the depreciable lives of the King Plant, Sherco Unit 3, and the Monticello and Prairie Island Nuclear Plants to reflect NSP's integrated resource plan's ("IRP") authorized operating lives, adjustments that would result in a $10.9 million decrease in the revenue requirement in 2025, and a $13.6 million decrease in 2026.[79] In its opening brief, the Department states:

> Because the IRP shortened the operating lives of those plants, the annual depreciation expense increased, resulting in revenue requirement increases of about $58.8 million and $55.4 million for 2025 and 2026, respectively. When combined with the recommended adjustments to the nuclear plants, there is a net negative impact to the revenue requirement, with reductions of about $10.9 million and $13.6 million.[80]

As XLI noted in its opening brief, NSP has not provided the calculations used by the Department for the accelerated depreciation method, thus limiting XLI's ability to review or verify the calculations.[81] XLI further explained that the information that was produced by NSP as part of discovery, which was prepared and filed in MPUC Docket No. CI-23-375,[82] does not match the figures used by the Department.[83] To put a finer point on XLI's concern, there are two potential interpretations of the Department's reproduction of Xcel's analysis, neither of which match the calculations performed by the Department.

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78 Ex. XLI-8 at 22:3-9 (LaConte Surrebuttal). The calculation for this expense is explained in XLI's initial brief, page 27.

79 Ex. XLI-5 at 3:9-16 (LaConte Rebuttal).

80 Department Initial Br. at 56-57 (citing Jones Surrebuttal).

81 Ex. XLI-5 at 4:19-5:22 (LaConte Rebuttal).

82 Ex. XLI-5 at 4:19-5:22 (LaConte Rebuttal).

83 Ex. XLI-5 at 4:19-5:22 (LaConte Rebuttal).

Again, the Department's authority for its proposal is reflected in Table 2 of Jones' surrebuttal testimony, which is reproduced below as Table 3 to this reply brief.

Table 3: Revenue Requirement Impacts of Monticello and Prairie Island Nuclear Plant Life Extensions, and Sherco 3 and King Coal Plant Life Reductions

Table 2: Revenue Requirement Impacts of Monticello and Prairie Island Nuclear Plant Life Extensions, and Sherco 3 and King Coal Plant Life Reductions

	2025	2026
Remaining Life Reduction - King	$38,047,714	$35,954,078
Remaining Life Reduction – Sherco 3	$20,777,918	$19,425,884
Total Remaining Life Reductions	**$58,825,632**	**$55,379,962**
Remaining Life Extension – Monticello	($13,173,208)	($12,821,353)
Remaining Life Extension – Prairie Island	($56,542,629)	($56,120,317)
Total Remaining Life Extensions	**($69,715,837)**	**($68,941,670)**
Overall Department Adjustment Total	**($10,890,205)**	**($13,561,708)**

The first interpretation is that the figures in the remaining life reduction lines for King and Sherco Unit 3 represent the revised revenue requirement for accelerated depreciation. Utilizing NSP's response to XLI-90 (namely the updated revenue requirement values in Attachment C for the years 2025 and 2026), the Department's calculations in Table 2 would be updated as follows in Table 4 to this reply brief.[84]

Table 4: Updated Department Values

	2025	2026
Remaining Life Reduction - King	$61,904,645	$59,824,384
Remaining Life Reduction - Sherco 3	$39,038,473	$37,591,101
Total Remaining Life Reductions	$100,943,118	$97,415,485
Remaining Life Extension - Monticello	($13,173,208)	($12,821,353)
Remaining Life Extension - Prairie Island	($56,542,629)	($56,120,317)
Total Remaining Life Extensions	($69,715,837)	($68,941,670)
Overall First Revised Adjustment Total	$31,227,281	$28,473,815

[84] *See also* Hearing Tr. Vol. 2, 433:22-435:15.

Under this interpretation, the alleged revenue requirement reduction using the Department's proposed approach would be overstated—instead of a reduction to the revenue requirement of ($10,890,205) and ($13,561,708) in 2025 and 2026, respectively, there would be an increase to the revenue requirement of $31,227,281 and $28,473,815 in 2025 and 2026, respectively. This shift from a negative to a positive is important because, as the Department admitted, its proposed approach of combining the remaining life reductions and remaining life extensions is premised upon the result being a reduction to the revenue requirement, not an increase.[85]

The second interpretation is that the figures in the remaining life reduction lines for King and Sherco Unit 3 in the Department's Table represent the change in revenue requirement for accelerated depreciation as compared to the current depreciation schedule. Again, utilizing NSP's response to XLI-90 (and taking the difference in the revenue requirement values in Attachments C and B for the years 2025 and 2026), the Department's calculations in Table 2 would be updated as follows in Table 5 to this reply brief.

Table 5: Updated Department Calculations

	2025	**2026**
Remaining Life Reduction - King	$32,640,038	$31,511,902
Remaining Life Reduction - Sherco 3	$10,683,991	$10,307,316
Total Remaining Life Reductions	$43,324,029	$41,819,218
Remaining Life Extension - Monticello	($13,173,208)	($12,821,353)
Remaining Life Extension - Prairie Island	($56,542,629)	($56,120,317)
Total Remaining Life Extensions	($69,715,837)	($68,941,670)
Overall Second Revised Adjustment Total	($26,391,808)	($27,122,452)

Under this interpretation, the alleged revenue requirement reduction using the Department's proposed approach would be understated—instead of a reduction to the revenue requirement of ($10,890,205) and ($13,561,708) in 2025 and 2026, respectively, there would be a greater decrease to the revenue requirement of ($26,391,808) and ($27,122,452) in 2025 and 2026, respectively.

[85] Tr. Vol. 2, 435:21-436:14.

Regardless of the interpretation, the bottom line is that the Department's proposed adjustments, based upon an email exchange (not discovery) between the Department and NSP cannot be reconciled with the analysis produced by NSP in discovery. Therefore, XLI could not verify the calculations,[86] and the Department's proposal should be rejected.

7. The Company's Egregious Lapses Regarding Customer Service Warrant Rejection of its Proposed Customer Care O&M Expense

The Company proposes a Customer Care O&M budget of $27.3 million for the 2025 test year, and $27.1 million for the 2026 plan year, asserting its request is both "reasonable and conservative."[87] In its initial brief, the Company acknowledges that BOMA member concerns have been raised repeatedly since July 2025, across multiple dockets, in an attempt to achieve progress toward or resolution of these significant issues. Instead of working toward resolution, the Company shifts the burden to ratepayers by refusing to act until BOMA explicitly identifies the members that have experienced these issues. BOMA members have already raised these issues with the Company, and therefore the Company knows better than anyone which of its customers are experiencing billing and customer service issues. Recall, state law requires NSP to meet the requirements of Chapter 7820 of the Minnesota Rules, including but not limited to 7820.3200 through 7820.3800, and has a statutory mandate to provide a certain level of service to its customers.[88] The Company's deflection of its statutory responsibility to its customers continues to concern XLI. Further, the Commission itself has acknowledged the Company's shortcomings, going so far as to order expansion of its investigative docket (Docket No. 25-341) into residential billing and customer service issues to cover C&I customers at its February 19, 2026 agenda meeting.

The Company bears the burden of demonstrating its Customer Care O&M expense should be recovered from ratepayers, and would result in just and reasonable rates. The Company cannot make this showing where it fails to meet even the bare minimum for customer service prescribed by the statute. Unless and until the Company can proactively work to manage these issues, XLI

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86 Ex. XLI-5 at 4:19-5:22 (LaConte Rebuttal).

87 NSP Initial Br. at 77.

88 E.g., Minn. R. 7810.1400, subp.1; Ex. XLI-2 at 64:2-7 (LaConte Direct).

reiterates its position that the entirety of the Company's requested Customer Care O&M expense be excluded from rate base.

B. CCOSS: The ALJ Should Reject the Company's CCOSS in Favor of XLI's AED-4CP CCOSS to Ensure a Just and Reasonable Starting Point for Revenue Allocation and Rate Design

1. XLI Maintains That Stratification is Outdated and Should Not Form the Basis of The Company's CCOSS

The Company continues to support use of the stratification method (also known as Equivalent Peaker) to allocate production plant and related expenses. The Company's only rebuttal to the arguments XLI raises against stratification are to state that XLI has raised this argument in previous rate cases, and that the Department finds the method to be "reasonable."[89] Neither of these reasons is sufficient for the Company to meet its burden of proof that the CCOSS method it proposes will result in just and reasonable rates. The Company bears the burden of demonstrating the methodology it proposes will result in just and reasonable rates, and it has not met that burden here.

XLI has raised issues with stratification in previous rate cases because the methodology has been outdated for several rate cycles now. XLI raises this issue again because there have been significant developments in how stratification is viewed. During the evidentiary hearing, the Company's Witness Barthol acknowledged that there have been changes in the acceptability of stratification since the Company's last rate case, given the Commission's adoption of the AED-4CP method for Minnesota Power. Additionally, the Company conceded that "the Public Service Company of Colorado testified that it disagreed with the underlying premises of stratification."[90] Given the Company's concession that both the Minnesota Commission and its own affiliate disregard stratification, the Commission should give greater weight to XLI's arguments against stratification and in favor of the AED-4CP method. The Company states it has used stratification since the 1970s, and that timing reflects the methodology's outdated nature.[91] As explained in XLI's initial brief, the stratification method no longer works as designed. Stratification "should

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89 NSP Initial Br. at 238.

90 Hearing Tr. Vol. 1 at 103:4-8 (Barthol).

91 NSP Initial Br. at 236.

function such that high-load-factor customers (customers who use more energy year-round) are allocated a proportionally larger share of fuel savings typically associated with the higher capital cost plants as a trade-off for being allocated a much higher percentage of production capital costs (i.e., "Capital Substitution"). However, the stratification method no longer functions in this way."[92] This disconnect is demonstrated in XLI Witness Ly's Schedule 1 of his direct testimony, recreated at Table 6 below.

Table 6: Comparison of Allocations of Non-Fuel Production Costs and Fuel and Purchased Power Expense.

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

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

Source: MN CCOSS 2025.

NSP has provided no evidence in its briefing, testimony, or otherwise to demonstrate the stratification method can overcome its warped functionality. Further, the Company has also failed to acknowledge that several regulatory jurisdictions have rejected stratification methodology, including the Michigan PSC, Florida PSC, and PUC of Texas, and the methodology has been criticized by the Company's own affiliate.[93] XLI reiterates its position that without such evidence, the Commission should not give weight to stratification as a functionalization methodology.

92 XLI Initial Br. at 36.

93 In its initial brief, XLI attributed this fact to the Public Service Commission of Colorado, rather than the Public Service Company of Colorado. This was an inadvertent misnaming of the Company's

The Department's belief that the stratification method should be used in this case is also flawed.[94] The Department contends stratification is "less likely to overstate the contribution of intermittent resources peak demand,"[95] and cites the Commission's previous support for stratification as sufficiently compelling to support its use.[96] The Department also states that "none of the relative strengths of the stratification method … have dissipated."[97] Each of the Department's assertions is misguided. As explained in Witness Ly's Direct Testimony, Stratification assumes $10,005 per kW ($11,419 - $1,414) of wind fixed costs are incurred to save fuel costs during the year, but wind and solar resources are intermittent because they are only available when the wind blows and sun shines. Thus, each resources' availability lies outside the utility's control, as opposed to capital intensive thermal resources that have higher capacity factors due to their full dispatchability.[98] "Because wind and solar are becoming an increasingly dominant portion of NSPM's generation fleet, Stratification has become obsolete."[99] There is no reason to disperse the majority of intermittent renewable resources' fixed costs to all hours of the year when these resources are unable to reduce fuel costs "during the many hours of the year that these resources are producing zero energy."[100] Furthermore, the state has required the addition of intermittent resources, such as wind and solar, to the Company's generating portfolio, meaning investment in these resources was "not driven by the assumption that increased capital costs are a trade-off for lower 20 fuel costs, which contradicts the application of Stratification."[101] This point demonstrates that contrary to the Department's contentions, any relative strengths the stratification method may have had have surely dissipated.

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affiliate. XLI intended to note the views of the Public Service Company of Colorado, as indicated in the citation itself. *See* XLI Initial Br. at 39, n. 173.

94 DOC Initial Br. at 84.

95 DOC Initial Br. at 84.

96 DOC Initial Br. at 84.

97 Department Initial Br. at 84.

98 Ex. XLI-3 at 8:4-7 (Ly Direct).

99 Ex. XLI-3 at 8:11-12 (Ly Direct).

100 Ex. XLI-3 at 8:12-15 (Ly Direct).

101 Ex. XLI-3 at 16-20 (Ly Direct).

Similarly, the OAG supports stratification for classification of fixed production plant.[102] In rebutting XLI's proposal for use of AED-4CP, the OAG cites to the Commission's rejection of XLI's request for use of the AEP-4CP method in the Company's last rate case. This argument provides no analysis or evidentiary support as to why stratification is a better methodology for classification purposes. Further, the OAG misunderstands the role of intermittent resources and their impact on classification. Specifically, the OAG takes issue with the classification of intermittent resources primarily as demand-related. However, XLI has explained exactly why this is necessary. In its initial brief, XLI explained that as intermittent resources increasingly comprise a majority of NSP's generation fleet, it defies reasonability to spread the "vast majority of fixed costs of intermittent renewable resources to all hours of the year when they cannot reduce fuel costs during the *many* hours of the year that these resources are producing zero energy."[103] NSP's own affiliate, the Public Service Company of Colorado, argued against stratification for this exact reason (i.e., that intermittent resources have less than 100% firm capacity).[104] Further, as mentioned in XLI's initial brief, the availability of intermittent resources is outside the control of the Company, and therefore renewable resources cannot offer their full nameplate capacity for purposes of meeting the Company's system peaks.[105]

Neither the Company, the Department, nor the OAG have provided sufficient evidence to support stratification as a methodology. The Company in particular bears this burden, and it has failed to meet it. Therefore, the ALJ should recommend little weight be given to stratification as a methodology.

2. XLI Maintains the AED-4CP Method is a Just and Reasonable Starting Point for Revenue Allocation

Although XLI's recommendation to set a CCOSS based on the AED-4CP method rather than stratification aligns with Commission precedent and regulatory trends, NSP states XLI's recommendation to move from stratification to AED-4CP would transfer significant cost

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102 OAG Initial Br. at 56.

103 Ex. XLI-3 at 8:11-15 (Ly Direct).

104 Ex. XLI-9 at 10:5-7 (Ly Surrebuttal).

105 Ex. XLI-9 at 10:77-10 (Ly Surrebuttal).

responsibility to the Residential class.[106] Of course, as the Company knows, a CCOSS is the starting point—not ending point—for revenue allocation and rate design. Furthermore, the significant discrepancy on achievement of the policy goal in Minn. Stat. § 216C.05 subd. 2(4) between the C&I Demand class and Residential class demonstrates historical inequities exist that should be remedied via using a more just CCOSS and reasonable revenue allocation.

Critcially, C&I Demand customers have no greater ability than any other customer class to absorb costs, and certainly do not have an unlimited ability to pass on energy cost increases.[107] XLI maintains that the AED-4CP CCOSS it developed is the most appropriate starting point for revenue allocation in this proceeding. XLI's position is consistent with the Commission's own approval of a similar methodology in Minnesota Power's 2021 rate case.[108] XLI provides significant evidentiary support for use of the AED-4CP method, which the Company glosses over. For example, XLI made pertinent comparisons between the Commission's direction for Minnesota Power to use the AED-4CP method and the instant proceeding. The Company also disregards the valid examples from other jurisdictions that apply the AED-4CP method. NSP provides little other reason why the AED-4CP method is inapt for its own purposes.

The Company also takes issue with XLI's methodology to calculate AED-4CP, continuing to advocate for the E8760 allocator used by NSP to "allocate energy-related fixed production plant costs," which it states "accounts for the on- and off-peak nature of fixed production plant costs and properly weighs then using marginal energy costs."[109] NSP contends "[w]eighting with marginal energy costs is most appropriate because those costs most accurately reflect cost causation."[110] Similarly, the Department asserts that XLI's proposal to use the AED-4CP method "fails to distinguish between different generation resources, does not consider the on- and off-peak natures of generators, and the Commission has supported Xcel's use of the plant stratification method for

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106 NSP Initial Br. at 239-40.

107 Ex. XLI-6 at 22:15-17 (Ly Rebuttal).

108 *See In the Matter of the Application of Minnesota Power for Authority to Increase Rates for Electric Utility Service in Minnesota*, Docket No. E-015/GR-21-335.

109 NSP Initial Br. at 239.

110 NSP Initial Br. at 239.

decades."[111] These contentions are flawed. As XLI's initial brief describes, the distinction between the E8760 allocator and a pure energy allocator is diminished due to the increased incorporation of renewable resources. As a result, rather than shifting fuel savings to C&I customers, a fundamental justification underlying stratification, the E8760 allocator compounds the issue by failing to lower energy costs for C&I customers. By way of example, "the residential class is allocated non-fuel production costs 14% below the NSP average, but is allocated fuel and purchased power expenses just 2% above average."[112] The Company provides no evidentiary support to demonstrate how this scenario does not contravene Capital Substitution (i.e., stratification), or rebut that this scenario quintessentially captures how increased penetration of intermittent renewable resources renders stratification unable to recognize the tradeoff between fuel costs and capital costs.

The OAG also recommends rejection of use of the AED-4CP methodology as unreasonable on the basis that (1) "its reliance on "excess demand" fails to recognize that utility systems are largely planned to provide capacity during times of peak demand, not "excess demand," (2) the method "allocates all types of generation to average or excess demand in the same proportion, meaning that it would classify and allocate the costs of a system made mostly of gas turbines in the same way as a system made mostly of coal or wind plants, an illogical outcome," and (3) the method does not rely on MISO coincident peaks.[113] Each of these reasonings is flawed. First, as explained in the Direct Testimony of XLI Witness Ly, "the excess demand component provides a measure of each classes' contribution to a system's peak demand and recognizes that a utility must also include load-following resources in its generating portfolio to meet varying levels of demand throughout the year, including at the time of greatest need."[114] Thus, its reliance on excess demand captures system peak demand data and each class's contribution to that. It also recognizes the need to include load-following resources to meet differing levels of demand throughout the year, including at the system peak.[115] Schedule 2 of Witness Ly's Direct Testimony shows NSP's

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111 Department Initial Br. at 84.

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

113 OAG Initial Br. at 58.

114 Ex. XLI-3 at 13:6-10 (Ly Direct).

115 Ex. XLI-3 at 13:6-10 (Ly Direct).

monthly system peaks as a portion of the annual system peak demand for 2023 through 2025. Second, there is no need to allocate varying types of generation differently. The OAG's argument ignores that despite the varying attributes between resources, the Company dispatches its capacity resources on an integrated basis, rendering it illogical (and in defiance of cost causation) to allocate production plant costs differently based on a plant's differing attributes.[116] Third, the OAG argues that the AED-4CP method does not rely on MISO coincident peaks as required by the Commission, but the Commission's order directed the Company to "base the D10S capacity allocator on Xcel's system peak coincident with MISO's system peak."[117] The order makes no such requirements for AED-4CP or stratification. The extension of this logic to the AED-4CP allocator is inappropriate and does not align with the Commission's actual directive.

Contrary to the contentions of the Company, the Department, and OAG, the AED-4CP method is the most appropriate method for allocating revenue in this proceeding. Witness Ly explains that the AED-4CP method recognizes the critical nature of load-following resources in a reliable generation fleet and the fact that certain customer classes have greater demand for load-following resources.[118] Further, as intermittent resources increasingly come online, load-following resources become increasingly critical for reliability. "[T]he AED method recognizes that NSPM operates its generating fleet as an integrated system."[119] For all these reasons, XLI maintains its position that stratification is an obsolete methodology inappropriate for the purpose of developing a CCOSS in this proceeding. Instead, the ALJ should recommend the Commission direct use of an AED-4CP CCOSS in this proceeding.

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116 Ex. XLI-9 at 7:8-17 (Ly Surrebuttal).

117 *See In the Matter of the Application of Northern States Power Company, dba Xcel Energy, for Authority to Increase Rates for Electric Service in the State of Minnesota*, MPUC Docket No. E-002/GR-21-630, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 98 (July 17, 2023) ("21-630 Order") (eDocket No. 20237-197559-01).

118 Ex. XLI-3 at 13:15-18 (Ly Direct).

119 Ex. XLI-3 at 13:19-21 (Ly Direct).

3. The Company's D10S Allocator Comports with Cost Causation

The Company continues to propose use of the D10S peak demand allocator to allocate demand-related production costs, which XLI supports.[120] The Company calculated its D10S allocator "based on its system peak coincident with the MISO system peak using historical data."[121] XLI agrees that the D10S allocator is the best methodology for demand-related transmission plant and related expenses. The D10S allocator appropriately "reflects class contributions to NSPM's system load at the time of the MISO-coincident peak."[122] Use of the D10S allocator is supported by the Company, the Department, and XLI in this proceeding.[123]

The OAG stands alone in its continued insistence on a twelve coincident peak ("12CP") allocator rather than the D10S allocation. In its initial brief, the OAG recommends the Commission require NSP "to move to an allocator based on either four seasonal peaks for 12 monthly peaks" to "better reflect MISO's broader conception of peak demand" than NSP's current process.[124] The OAG suggests this methodology is a more apt allocator than the D10S. Amongst its qualms with the D10S allocator, the OAG takes issue with the calculation method for determining the system peak, arguing for its own method wherein it arbitrarily determines "a range of days most likely to include the MISO peak," rather than relying on historical data as to when MISO actually experienced its peak.[125] Its method resulted in the selection of 94 hours, most of which did not reflect peak conditions.[126] In fact, Schedule 1 of XLI Witness Ly's Rebuttal Testimony analyzes the 94 hours, and demonstrates that of all the hours selected by the OAG, only 17 hours are at least 90% of peak load.[127] Conversely, 77 hours (82%) of the total hours selected by the OAG "fall significantly below the system peak."[128] The resulting average load presented by the OAG's hours

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120 NSP Initial Br. at 240.

121 NSP Initial Br. at 240 (citing 21-630 Order at 99).

122 Ex. XLI-9 at 13:3-6 (Ly Surrebuttal).

123 Ex. XLI-9 at 13:6-9 (Ly Surrebuttal).

124 OAG Initial Br. at 73.

125 OAG Initial Br. at 60.

126 Ex. XLI-6 at 5:5-7 (Ly Rebuttal).

127 Ex. XLI-6 at 5:14-15 (Ly Rebuttal).

128 Ex. XLI-6 at 5:15-16 (Ly Rebuttal).

is just 82% of peak load.[129] Fundamentally, NSP's system must be able to meet peak demand, it is not sufficient to meet average demand. Given NSP's status as a summer-peaking system, it would defy logic to design the system to only meet year-round average demand, which would surely lead to a failure to meet its customers' actual peak demands during the summer.[130] XLI Witness Ly also notes use of the 12CP allocator as redundant, given the E8760 allocator appropriately recognizes reliability risks throughout the year, assigning costs to customers on that basis.[131]

The 12 CP allocator is a flawed tool inappropriate for use in this rate case. The Commission should not give weight to the OAG's updated D10S allocator because the OAG's revised D10S allocator is overly broad and too inclusive, chilling price signals and undercutting the purpose of a peak demand allocator.[132] For these reasons, XLI continues to support use of a D10S allocator for the Company's demand-related transmission plant and related expenses, over the 12CP allocator.[133]

4. The ALJ Should Reject the OAG and Department's Proposals for Use of Methods Other Than the Minimum System Method

The Company continues to support its Minimum System Method ("Hybrid method"), asserting it is the "most reasonable method to classify distribution system costs…."[134] XLI continues to not oppose this method, although believes in the future, the Company should use one methodology or another.[135] The Department also supports use of the Minimum System, as well as Basic Customer Method to inform rate design. As explained below, the Minimum System Method is the only appropriate methodology for allocating costs in this rate case.

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129 Ex. XLI-6 at 5:17-18 (Ly Rebuttal).

130 Ex. XLI-3 at 19:10-17 (Ly Direct).

131 Ex. XLI-3 at 20:5-11 (Ly Direct).

132 Ex. XLI-6 at 5:20-22 (Ly Rebuttal).

133 Ex. XLI-3 at 20:13-14 (Ly Direct).

134 NSP Initial Br. at 247.

135 Ex. XLI-3 at 25:2-7 (Ly Direct).

The OAG stands as the only party to advocate for less weight to be given to the Minimum System Method, relying on the Regulatory Assistance Project's ("RAP") preference for other methods, despite providing no evidence that the RAP manual is more accurate or reliable than the National Association of Regulated Utility Commissioners ("NARUC") Manual. In particular, the OAG argues that the Minimum System Method should not be solely relied on, as the Company and XLI advocate, because the method "overstates the customer-related portion of the distribution system."[136] The OAG contends other methods exist to classify and allocate distribution costs that better represent cost causation and do not over-classify shared distribution system costs (i.e., the Basic Customer and Peak-and-Average ("P&A") Methods), but these methods are flawed.[137] First, the core assumption underlying the Basic Customer method defies cost causation. The CCOSS exists to assign costs, as accurately as possible, based on their cause. Costs that are caused by the number of customers are customer-related, and costs that are caused by peak demand are demand-related. A fatal flaw, the Basic Customer method fails to recognize that both the number of customers and the need to serve peak demand make up the costs of the distribution system. Without a doubt, the number of customers will impact the amount of peak demand, and a failure to account for that nuance renders this method inappropriate for developing a CCOSS. The P&A method is similarly ill-equipped as an allocation method for this purpose. The OAG asserts that XLI's dismissal of the P&A Method amounts to "an unrigorous engagement with cost-allocation theory," but XLI provided weighty record evidence that the P&A method is fundamentally flawed. As XLI Witness Ly explains in his rebuttal testimony, the P&A method automatically assumes that customer energy use will drive the cost of transformers and distribution lines, however, without a corresponding increase in peak demand, increased energy use will not increase the cost of the line.[138] Further, the method classifies to energy 55% of the costs of conductor and transformers,[139] yet the OAG, the only proponent of this method, provides no evidence that "year-round energy usage drives the size and types of equipment required by NSPM to attach customers to the grid and ensure that the grid can meet the expected peak demands of its customers."[140] It

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136 OAG Initial Br. at 66.

137 OAG Initial Br at 66.

138 Ex. DOC-16, Zajicek Direct at 23:8-12.

139 XLI Ex. 6 at 14:8-12 (Ly Rebuttal).

140 Ex. XLI-6 at 14:9-12 (Ly Rebuttal).

appears the OAG's only justification for classifying such a significant portion of these costs as energy-related is that "energy transfer in distribution lines can lead to heat buildup, which can cause wear and tear on distribution lines and transformers, and that costs incurred to reduce losses can provide energy-related benefits."[141] As Witness Ly explains, the impacts of the issues the OAG describes are incidental at best and any associated energy-loss benefits are minimal, and largely insufficient to justify classifying 55% of conductor and transformer costs to energy.[142] Further, it is commonly recognized that the distribution system does not classify costs to energy. While the OAG contends the NARUC CAM provides contradictory guidance stating "there is no energy component of distribution costs, but in a table in a separate chapter, distribution costs are shown to include an energy-related component," Witness Ly provides clarity.[143] XLI Witness Ly identified a separate part of the NARUC CAM that provides a more in-depth look at the classification and allocation of distribution network costs, wherein the NARUC CAM states affirmatively that the distribution network has no associated energy component.[144] The OAG ignores this explicit guidance, which undercuts the appropriateness of the P&A method.

Further in defense of the P&A method, the OAG downplays the significance of the method not appearing in the NARUC Manual. The NARUC Manual was established by numerous state utility regulators as a tool to compare methodologies,[145] and is "an authoritative source…put together by a number of state regulators, official bodies that make decisions …" as opposed to the RAP Manual relied on by the OAG, which was prepared by analysts.[146] As explained in Witness Ly's testimony, neither the Basic Customer nor the P&A methods are appropriate in this case nor do they comport with cost causation principles.

The Department advocates for reliance of results based on the Basic Customer method in addition to the Minimum System method, arguing "[c]ombining the results of the basic customer

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141 Ex. OAG-8 at 25:7-11 (Scharber Direct).

142 Ex. XLI-6 at 14:17-20 (Ly Rebuttal).

143 Ex. XLI-9 at 16:9-12 (Ly Surrebuttal).

144 Ex. XLI-9 at 16:16-21 (Ly Surrebuttal).

145 Hearing Tr. Vol. 2 at 341:19-22 (Ly).

146 Hearing Tr. Vol. 2 at 353:6-18 (Ly).

and hybrid method studies creates an end result that is stronger than either study alone."[147] However, the Department concedes that "[t]he Basic Customer Method does not recognize important functions of the distribution system, primarily to connect customers to service, when classifying the majority of distribution costs as demand. As such it should be viewed as a lower bound on customer related costs."[148] Further, Department Witness Zajicek states "[i]n general, I believe choosing a single CCOSS that best comports with cost causation principles to act as the guide for rate design is the best practice. The Commission, however, has expressed repeatedly that it finds multiple CCOSS results useful and prefers a range of results. As such, in this case I support the use of multiple CCOSS results…"[149] The Department appears to concede that its reliance on the Basic Customer method stems from the Commission's desire to see multiple CCOSS results, rather than its belief that the Basic Customer method best comports with cost causation or produces reliable results. The Department's contentions include little evidentiary support for the method itself, appear to undermine reliance on the Basic Customer method, and ignore the issues with the method XLI outlines above.

The OAG is the only party in this proceeding to recommend reliance on the Basic Customer and P&A methods, and recommend less weight be given to the Minimum System method. This recommendation ignores glaring and serious issues with each of these methodologies, and demonstrates the OAG fundamentally misunderstands how distribution network costs are classified. For the reasons already stated above, the ALJ should recommend reliance only on the results of the Company's Minimum System study.

5. The ALJ Should Recommend Allocation of the Economic Development Discount Costs Using the Company's Proposed Method

The Company has proposed allocation of costs for its economic development discounts to customers based on each class's share of present base revenues.[150] XLI supports the Company's proposed allocation method. However, the OAG rebuts both XLI and the Company, arguing this

147 Department Initial Br. at 83.

148 Ex. DOC-16 at 29:6-9 (Zajicek Direct).

149 Ex. DOC-16 at 41:17-21 (Zajicek Direct).

150 NSP Initial Br. at 259.

allocation contravenes cost causation on the basis that the Company did not provide sufficient evidence to demonstrate that changing the allocation method was warranted.[151] As Witness Ly explained in his rebuttal testimony, the OAG's opposition defies cost causation. Because large customers receiving this discount "generate incremental revenues which offset a portion of fixed system costs" and do not "directly impact fuel costs or costs for other riders that are paid for by other customers," it stands to reason to allocate costs for the discount on base revenues, given the only costs directly impacted by large customers are base revenues.[152] On this basis, XLI requests the ALJ recommend rejection of the OAG's proposed allocation method in favor of the Company's, which is supported by cost causation principles.

6. XLI's Revised CCOSS Should Be Given the Most Weight

Witness Ly prepared a revised 2025 Minimum System Method CCOSS (see Schedule 4 of Ly Direct Testimony), reproduced at Table 7 below, which incorporates the "AED-4CP method to allocate plant-related costs and purchased power capacity costs, classifies all labor-related other production O&M expenses to demand, allocates regional market expenses using a composite of production plant and transmission plant, and applies the D10S allocator for demand-related transmission plant and related expenses."[153] The CCOSS produced using this method is vastly more consistent with cost-causation than any other CCOSS submitted in this proceeding.

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151 *See* OAG Initial Br. at 70-72.

152 Ex. XLI-6 at 21:11-16 (Ly Rebuttal).

153 XLI Initial Br. at 45.

Table 7: XLI's Revised CCOSS Results

Table 1 Summary of XLI's Revised CCOSS Results At Present Rates			
Customer Class	Rate of Return	Relative Rate of Return	Subsidy* ($000)
Residential	4.74%	84	($78,659)
Non-Demand	6.18%	109	$3,048
Demand	6.50%	115	$77,750
Lighting	4.59%	81	($2,139)
Minnesota Retail	5.66%	100	$0
* A positive amount means that revenues exceed cost. A negative amount means that costs exceed revenues.			

XLI continues to advocate for the CCOSS summarized in Table 7, which more closely comports to cost causation than other CCOSSs submitted in this case.

C. REVENUE ALLOCATION: The ALJ Should Address Interclass Subsidies by Recommending Rates Be Set at the Cost of Service

The pressures of interclass subsidies significantly impact C&I customers, who are subject to constraints from increased global and domestic competition. Increased competition limits industrial customers' ability to pass on higher electricity costs. Therefore, significant rate increases negatively impact C&I customers' ability to compete both at home and abroad.[154] The CCOSS model developed by Witness Ly accounts for these concerns and serves as a strong basis from which to form a revenue allocation recommendation.

The Company contends XLI's revenue allocation recommendation is not reasonable because it "would result in inequitable rate increases on one class or another."[155] The Company's rebuttal relies on the misguided argument that its CCOSS model is reasonable and XLI's CCOSS model is unreasonable. The Company's argument fails. Its CCOSS relies on the outdated stratification method that is inappropriate for this proceeding for all the reasons XLI has laid out

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

155 Xcel Initial Br. at 265.

above. The Company cannot overcome significant issues with its CCOSS so long as it relies on stratification. Nor has the Company (or any other party) been able to refute the fact that the Company's CCOSS, which is unreasonably biased against the C&I Demand customers, and historical revenue allocation decisions by the Commission to deviate from the Company's CCOSS to the increased detriment of the C&I Demand customers, have resulted in rates and bills for the C&I Demand class being significantly above the national average.

The Company has a statutory charge to avoid rate shock and unreasonable discrimination against any individual customer class.[156] The Company fails to acknowledge that C&I Demand customers have been subsidizing rates for other customer classes for years. Reducing and even eliminating these interclass subsidies serves to benefit not only the Company, but its customers as well, providing increased efficiency, stability, and conservation. Without meaningful movement toward cost, NSP's customers will continue to suffer and be at risk for rate shock, and the Company will fail to conform to state requirements for just and reasonable rates.[157]

Without substantive engagement or analysis, Walmart argues that the Company has met its burden to demonstrate its proposal will move each class closer to cost-based levels for the MYRP, but Walmart's assertion relies on a faulty assumption—that the Company's CCOSS is a reasonable foundation for revenue allocation.[158] Walmart provides no evidentiary support nor analysis to support the outdated methodology on which the Company's CCOSS relies. Further, Walmart ignores the evidentiary support XLI *has* provided, in the way of Witness Ly's Schedule 5 (Table 6 above), which shows that the Company's proposal will not actually move rates closer to cost. As described in XLI's initial brief, the Company's relative rates of return may move around 20% closer to parity, but its proposal will not result in rates moving 20% closer to cost. This reality is reflected in Witness Ly's Schedule 5 of direct testimony, which more accurately measures movement to cost by comparing interclass subsidies at present rates, compared against proposed rates. Schedule 5 shows the Company's proposal will not move rates 20% closer to cost, but rather that interclass subsidies paid by C&I Demand customers would in fact increase under the

156 Minn. Stat. §§ 216B.03, .07

157 Ex. XLI-3 at 28:11-15 (Ly Direct).

158 Walmart Initial Brief at 12.

Company's proposal, subsidizing Residential and Lighting customers.[159] Given Walmart's unreasonably cursory analysis and failure to produce evidentiary support for the contention that the Company has sufficiently demonstrated its proposal will move each class closer to cost, Walmart's support of the Company's proposal should be not be given any weight.

The OAG contends its revenue apportionment recommendation is the sole one to consider multiple cost studies and non-cost factors, including the general ability of each customer class to pass on cost increases.[160] The OAG renews its objection to the Company, XLI, and the Department's reliance on the Minimum System method, and the Company and XLI's exclusion of the Basic Customer and P&A methods, despite the robust record evidence that demonstrating why the latter two methodologies are flawed and inappropriate for this proceeding. The OAG further prods, contending the Company, XLI, and the Department failed to thoroughly consider the Company's Minimum System CCOSS in their revenue apportionment recommendations.[161] Despite the OAG's contention, its revenue apportionment is based on a CCOSS that incorporates flawed and inappropriate methodologies. Further, the OAG's limited consideration of the ability of varying customer classes to pass on cost increases insufficiently considers the challenges facing C&I Demand customers, suggesting that larger customers have a greater ability to pass along costs.[162] This assertion ignores evidence XLI has offered showing that C&I customers are facing greater pressures than ever domestically and commercially, and actually have a decreased ability to pass along energy costs in order to stay competition. Because the OAG relies on flawed methodologies and does not appropriately account for non-cost factors such as ability to pass along costs, the ALJ should recommend the Commission give the OAG's revenue allocation method little weight.

The Company bears the burden to demonstrate its proposal will result in just and reasonable rates; not only has it failed to make that showing, it has demonstrated its proposal would actually increase interclass subsidies for C&I Demand customers. The continued presence of interclass

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159 Ex. XLI-3 at 31:3-6, 12-16 (Ly Direct).

160 OAG Initial Br. at 82.

161 OAG Initial Br. at 84.

162 *See* OAG Initial Br. at 85.

subsidies on the Company's system materially impacts the overall competitiveness of C&I customers. This persistent issue should be addressed by the ALJ and Commission by ensuring revenue allocation is done in a manner that will move customers closer to cost (i.e., through use of Witness Ly's CCOSS). As C&I Demand customers continue to face uncompetitive rates for electric service, XLI respectfully urges the ALJ to recommend greater weight to XLI's recommended class revenue apportionment, which will move customers closer to cost while protecting them from rate shock.[163]

D. RATE DESIGN: The Appropriate Forum to Address Concerns With the Proposed Large Load Tariff Is During a General Rate Case

The Company argues that neither the ALJ nor the Commission should make a decision on its proposed tariffs for Large General Time of Day Service customers and Large Peak Controlled Time of Day Service customers ("Data Center Tariff") in this proceeding, namely because there is a separate docket for the Data Center Tariff where the issues raised by XLI should be decided. The Company similarly asserts that there is "no need to re-run a CCOSS in order to decide this rate case," because there are not yet any incremental revenues and allocation of those revenues would be premature.[164] The Company paints XLI's proposal as merely a benefit to itself, however, that ignores the reality that XLI members would be the ones shouldering socialization of costs were its new large load customers to be a subclass of C&I Demand, rather than their own distinct class. It would be XLI members that would be forced to absorb the extra costs of bringing these resources online. The Company's assertions do not assuage XLI's material concerns with NSP's proposal. Furthermore, the statutory language is clear that the requirements of Minn. Stat. § 216B.1622 do not apply to existing "electric service agreements of public utility customers meeting the threshold of a very large customer, or to very large customers that have been actively taking electric service from the public utility prior to 2020."[165] Without establishing a distinct customer class for new large load customers, the requirements of the statute will be rendered unenforceable or inapplicable. Only by establishing a new class for very large customers can the

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163 Ex. XLI-3 at 34:4-10 (Ly Direct).

164 NSP Initial Br. at 297-98.

165 Minn. Stat. § 216B.1622.

Company comply with state law and protect existing C&I Demand customers from shouldering undue costs for new large load.

Therefore, XLI continues to request the ALJ recommend the Commission require the Company to revise its CCOSS in this rate case proceeding to establish a new, separate customer class for the Large General Time of Day Service and Large Peak Controlled Time of Day Service tariffs, directing that any incremental revenues collected from new large load customers be allocated to customer classes in the same manner that the Company currently allocates its production and transmission plant.[166] The Company has conceded that 200 MW of new data center load would be an increase of 8%-10% of current MWh sales, and thus XLI believes that to be a reasonable threshold for requiring the timing of an updated CCOSS. If the Company does not have an active general rate case pending at the time it reaches that threshold, and has not had an intervening general rate case, then it should be directed to make that filing in this docket.

III. CONCLUSION

As explained in detail above and in XLI's initial brief, in making recommendations to the Commission, the ALJ should modify the Company's revenue requirement proposals and endorse a CCOSS and revenue allocation consistent with the following:

- The Company's proposed ROE is unreasonable and recommend that the Commission reduce the ROE to at least 8.96% based upon credible evidence submitted by Witness LaConte and other parties;

- The test year revenue increase sought by the Company is unreasonable and recommend that the Commission reduce the proposed test year revenue increase via the following adjustments:

    - Rejecting the Company's proposal to increase the incentive compensation cap from 15% to 20%;

166 Ex. XLI-9 at 24:5-11 (Ly Surrebuttal).

- Rejecting the Company's proposal to collect portions of long-term incentive compensation from ratepayers;
- Reducing the Company's Energy Supply O&M and Transmission O&M expenses;
- Rejecting the Company's request to increase its ELI expense;
- Rejecting the Department's proposal for ratemaking treatment associated with the King Plant and Sherco Unit 3; and
- Rejecting the Company's customer care O&M expense;

- The Company's CCOSS relies on an obsolete methodology and should be replaced by the AED-4CP methodology consistent with XLI Witness Ly's testimony;
- The Company's proposed revenue allocation disregards cost causation and does not satisfactorily reduce the existing interclass subsidies on the Company's system, and recommend that the Commission adopt XLI Witness Ly's proposal to set rates based upon cost of service; and
- The Company must file a revised CCOSS in this proceeding, or future rate case, establishing a new large load customer class entirely separate from the existing C&I Demand class.

Dated: February 25, 2026

Respectfully submitted,

STOEL RIVES LLP

/s/ Andrew P. Moratzka

Andrew P. Moratzka (#0322131)
Amber S. Lee (#0342178)
Eden A. Fauré (#0403824)
33 South Sixth Street, Suite 4200
Minneapolis, MN 55402
Tele: 612-373-8800
Fax: 612-373-8881
ATTORNEYS FOR THE XCEL LARGE INDUSTRIALS