BEFORE THE MINNESOTA COURT OF ADMINISTRATIVE HEARINGS
600 North Robert Street
Saint Paul, Minnesota 55101

FOR THE MINNESOTA PUBLIC UTILITIES COMMISSION
121 Seventh Place East, Suite 350
Saint Paul, Minnesota 55101-2147

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

CAH Docket No. 22-2500-40870
MPUC Docket No. E002, PT-7157 / SA-25-129

PROPOSED FINDINGS OF FACT, CONCLUSIONS OF LAW, AND RECOMMENDATION OF NORTHERN STATES POWER COMPANY D/B/A XCEL ENERGY

March 30, 2026

Ryan P. Barlow
Katherine J. Marshall
Cozen O'Connor
150 S. 5th Street, Suite 1200
Minneapolis, Minnesota 55402

Riley A. Conlin
Northern States Power Company,
d/b/a Xcel Energy
414 Nicollet Mall
Minneapolis, Minnesota 55401

Attorneys for Xcel Energy

Table of Contents

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In the Matter of the Petition of the City of Slayton for the Determination of Compensation for City Acquisition of Xcel Energy Electric Service Territory	CAH Docket No. 22-2500-40870 MPUC Docket No. E002, PT-7157 / SA-25-129

The above-entitled matter came on for an evidentiary hearing before the Honorable Christa L. Moseng, Administrative Law Judge, on February 5, 2026, at the offices of the Minnesota Public Utilities Commission in St. Paul, Minnesota.

Joshua P. Weir, James M. Strommen, and Andrew M. Biggerstaff, Kennedy & Graven, Chartered, appeared on behalf of the City of Slayton (Slayton or the City).

Ryan P. Barlow and Katherine J. Marshall, Cozen O'Connor, and Riley Conlin, Xcel Energy, appeared on behalf of Northern States Power Company d/b/a Xcel Energy (Xcel Energy).

Katherine Arnold and Amrit Hundal, Assistant Attorney General, appeared for and on behalf of the Minnesota Department of Commerce (Department).

Christian Noyce appeared for the Staff of the Public Utilities Commission (Commission).

Based on information in the Petition, the submissions prepared by the parties, the testimony at the public hearings, the written comments received, exhibits received in this proceeding, and other evidence in the record, the Administrative Law Judge makes the following:

FINDINGS OF FACT

I. SUMMARY OF THE PETITION

1. The City proposes to acquire electric distribution facilities from Xcel Energy that are located within city limits and form a municipal electric utility pursuant to Minnesota Statutes § 216B.45. Slayton and Xcel Energy were unable to agree on the appropriate level of compensation.[1]

2. On February 25, 2025, the City of Slayton filed a petition with the Commission requesting a proceeding under Minn. Stat. § 216B.45 to determine just compensation for Xcel Energy property it seeks to purchase for the purposes for forming a municipal electric utility.[2]

II. THE PARTIES

3. The City of Slayton is a town of approximately 2,000 people located in Murray County, in southwest Minnesota.[3]

4. Xcel Energy is a Minnesota investor-owned utility serving customers in the City of Slayton the surrounding community. Slayton is located in the exclusive service territory of Xcel Energy, which has been assigned the territory since Minnesota's service territory statutes were first enacted in the 1970s.[4] Xcel Energy has provided electric service

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[1] Ex. Slayton-100, Petition of the City of Slayton for the Determination of Compensation under Minn. Stat. § 216B.45 at 1 (Petition).
[2] Ex. Slayton-100, Petition. *See also* NOTICE OF AND ORDER FOR HEARING at 1 (June 2, 2025).
[3] Ex. Slayton-110, Malchow Rebuttal at 3:16-17.
[4] Minn. Stat. §§ 216B.37-39.

to the City and surrounding area for more than 70 years[5] and currently serves 1,235 customer accounts within City limits.[6]

5. The Minnesota Department of Commerce intervened as of right under the Commission's rules.[7]

III. PROCEDURAL HISTORY

6. On February 24, 2025, the City of Slayton (Slayton) filed a petition for the determination of compensation under Minn. Stat. § 216B.45.[8]

7. On March 6, 2025, the Commission issued a Notice of Comment Period, requesting comments on three topics:

- Should the Commission refer this matter to the Office of Administrative Hearings for a contested case hearing under Minn. R. 7829.1000 to develop a record, make findings of fact and a recommendation as to the amount of just compensation?

- If the Commission does not refer this matter to Office of Administrative Hearings, what process should be used to determine just compensation under Minnesota Statutes, Section 216B.45?

- Are there other issues or concerns related to this matter? [9]

8. In April 2025, the Commission received comments from the following entities: the Department of Commerce, Division of Energy Resources; Xcel Energy; and Slayton.[10]

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[5] Ex. Xcel Energy-214, Marshall Direct at 2:12-13.
[6] Ex. Xcel Energy-204, Peterson Direct at 36:7-9.
[7] *See* Minn. R. 7829.0800, subp. 3.
[8] Ex. Slayton-100, Petition.
[9] Notice of Comment Period (Mar. 6, 2025).
[10] Exs. Slayton 101, Initial Comments of the City of Slayton; Slayton-102, Reply Comments of the City of Slayton; Xcel Energy-200, Comment of Xcel Energy; Xcel Energy-201, Reply Comments of Xcel Energy; DOC-300, Comments of the Minnesota Department of Commerce.

9. On May 15, 2025, the Commission met to consider this matter.[11]

10. On June 2, 2025, the Commission issued an Order of and Notice for Hearing referring the matter to what is now the Court of Administrative Hearings for a contested case proceeding. The Commission directed the Court of Administrative Hearings to "develop a full record, addressing, at a minimum, the just compensation for the property to be purchased by Slayton considering the original cost of the property less depreciation, loss of revenue to Xcel, expenses resulting from integration of facilities, and other appropriate factors."[12]

11. On June 25, 2025, the undersigned Administrative Law Judge held a prehearing conference.[13]

12. On June 27, 2025, the undersigned Administrative Law Judge issued the First Prehearing Order and a Protective Order.[14]

13. On October 21, 2025, the Xcel Energy, the City, and the Department filed a Joint Motion to Amend Procedural Schedule.[15]

14. On November 4, 2025, the undersigned Administrative Law Judge issued an Order Amending Procedural Schedule and Scheduling Public Hearings setting forth the briefing schedule and other deadlines, and setting the Evidentiary Hearing date for February 5-6, 2026.[16]

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[11] NOTICE OF AND ORDER FOR HEARING at 1 (June 2, 2025).
[12] NOTICE OF AND ORDER FOR HEARING at 2 (June 2, 2025). At the time of the referral, the Court of Administrative Hearings was called the Office of Administrative Hearings.
[13] *See* FIRST PREHEARING ORDER AND PROTECTIVE ORDER (June 27, 2025).
[14] FIRST PREHEARING ORDER AND PROTECTIVE ORDER (June 27, 2025).
[15] Joint Motion to Amend Procedural Schedule (Oct. 21, 2025).
[16] ORDER AMENDING PROCEDURAL SCHEDULE AND SCHEDULING PUBLIC HEARINGS (Oct. 21, 2025).

15. On November 21, 2025, Xcel Energy filed the Direct Testimony of Allen D. Krug, John I. Marshall, Bixuan Sun, and Lisa R. Peterson.[17]

16. On November 21, 2025, Slayton simultaneously filed the Direct Testimony of David Berg.[18]

17. On December 10, 2025, Judge Moseng issued an Order Cancelling Hearing and for Prehearing Conference.[19]

18. On January 5, 2026, the parties filed the Second Joint Motion to Amend Procedural Schedule.[20]

19. On January 9, 2026, Xcel Energy filed the Rebuttal Testimony of Allen D. Krug and Lisa R. Peterson.[21]

20. On January 9, 2026, Slayton filed the Rebuttal Testimony of David Berg, Mark Fritsch, Mark Mitchell, Blake Heronimus, and Joshua Malchow. The Rebuttal Testimonies of Mark Fritch and Mark Mitchell were later withdrawn and refiled with certain information excised. The versions filed on January 9, 2026 were not offered.[22]

21. On January 9, 2026, the Department filed the Rebuttal Testimony of Cuong Ngo.[23]

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[17] Exs. Xcel Energy-202, Krug Direct; Xcel Energy-204, Peterson Direct; Xcel Energy-205, Peterson Direct (Trade Secret); Xcel Energy-210, Sun Direct; Xcel Energy-211, Sun Direct (Trade Secret); Xcel Energy-214, Marshall Direct.
[18] Exs. Slayton-103, Berg Direct; Slayton-104, Berg Direct (Trade Secret).
[19] ORDER CANCELLING HEARING AND FOR PREHEARING CONFERENCE (Dec. 10, 2025).
[20] Second Joint Motion to Amend Procedural Schedule (Jan. 5, 2026).
[21] Exs. Xcel Energy-203, Krug Rebuttal; Xcel Energy-206, Peterson Rebuttal; Xcel Energy-207, Peterson Rebuttal (Trade Secret).
[22] Exs. Slayton-105, Berg Rebuttal; Slayton-106, Berg Rebuttal (Trade Secret); Slayton-109, Heronimus Rebuttal; Slayton-110, Malchow Rebuttal; Slayton-115, Fritsch Rebuttal (Redacted); Slayton-116, Mitchell Rebuttal (Redacted).
[23] Ex. DOC-301, Ngo Rebuttal.

22. On January 22, 2026, Xcel Energy filed the Surrebuttal Testimony of Lisa R. Peterson and Bixuan Sun.[24]

23. On January 22, 2026, Xcel Energy filed a Motion for Good Cause to Authorize Errata for the Direct Testimony of Lisa Peterson Order Authorizing Errata, which Motion was granted on February 4, 2026.

24. On January 22, 2026, Slayton filed the Surrebuttal Testimony of Joshua Malchow, Mark Fritsch, Mark Mitchell, and David Berg.[25]

25. On January 22, 2026, the Department filed the Surrebuttal Testimony of Peter Teigland.[26]

26. On February 4, 2026, Slayton filed revised Rebuttal Testimony of Mark Fritch and Mark Mitchell pursuant to an agreement reached with Xcel Energy about the admissibility of the testimony.[27]

27. On February 5, 2026, evidentiary hearings were at the Minnesota Public Utilities Commission's Small Hearing Room in St. Paul, Minnesota.

28. On March 13, 2026, initial post-hearing briefs were simultaneously filed by Slayton, Xcel Energy, and the Department.[28]

29. On March 30, 2026, reply briefs were simultaneously filed.

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[24] Exs. Xcel-208, Peterson Surrebuttal; Xcel-209, Peterson Surrebuttal (Trade Secret); Xcel-212, Sun Surrebuttal; Xcel-213, Sun Surrebuttal (Trade Secret).

[25] Exs. Slayton-111, Malchow Surrebuttal; Slayton-112, Fritsch Surrebuttal; Slayton-113, Mitchell Surrebuttal; Slayton-114, Berg Surrebuttal.

[26] Ex. DOC-302, Teigland Surrebuttal.

[27] Exs. Slayton-115, Fritsch Rebuttal (Redacted); Slayton-116, Mitchell Rebuttal (Redacted).

[28] *See* Initial Brief of Northern States Power Company, d/b/a Xcel Energy (Xcel Energy Initial Brief); Initial Brief of the City of Slayton (Slayton Initial Brief), and the Initial Brief of the Minnesota Department of Commerce (Department Initial Brief).

IV. FACTUAL BACKGROUND

A. Xcel Energy's Service to Slayton

30. Xcel Energy has provided electric service in the City of Slayton for over 70 years and currently serves 1,235 customer accounts within City limits.[29] Beyond providing electric service, Xcel Energy is an active member of the community.[30]

31. Xcel Energy has planned, designed, and invested its system based on the reasonable expectation that it would continue to provide safe, affordable, and increasingly clean electricity to Slayton in the future.[31] The Company has recently made significant investments in the Slayton area to maintain and improve the reliability of the electric service it provides.[32]

32. Xcel Energy personnel have worked directly with Slayton City Administration on projects addressing concerns raised by the City.[33] For instance, in September 2021, the City requested that Xcel Energy investigate two outages affecting several residences along Linden Avenue and Maple Avenue. In the fall of 2022, Xcel Energy replaced 15 poles, 5 overhead transformers, 4,009 feet of overhead primary/neutral wire and 1,510 feet of overhead secondary wire and performed tree trimming throughout the entire project area to improve service quality to these residences.[34]

[29] Exs. Xcel Energy-214, Marshall Direct at 2:12-15; Xcel Energy-204, Peterson Direct at 36:7-9.
[30] Company witness Marshall provided a summary of the local events Xcel Energy is involved in, and Xcel Energy's historical contributions to the community. Ex. Xcel Energy-214, Marshall Direct at 2:17-24.
[31] *See* Ex. Xcel Energy-214, Marshall Direct at 19:16-19; Xcel Energy Initial Brief at 1.
[32] Ex. Xcel Energy-214, Marshall Direct at 2:12-15.
[33] Ex. Xcel Energy-214, Marshall Direct at 3:1-17.
[34] Ex. Xcel Energy-214, Marshall Direct at 3:1-17, 15:23-17:2.

33. The Company monitors the status of infrastructure in Slayton and has made pro-active investments when repairs are necessary. This includes an investment of approximately $1.6 million to replace 198 poles in Slayton in 2024.[35] The Company also used drones to inspect poles and, in 2024 and 2025, replaced 126 poles, representing an investment of approximately $2.2 million.[36]

34. Xcel Energy is rebuilding 46 miles of the 69 kV transmission line that serves Slayton for an anticipated cost of $39.2 million.[37] This project involves installing 900 new power poles and upgrading powerlines.[38] The first phase and second phases of the project were completed in 2023 and 2024. The final phase is expected to be completed by the end of 2026.[39]

35. A team of Xcel Energy employees provide electric service to the City. One of these employees, the District Representative, is responsible for addressing a variety of issues, including responding to emergency calls, helping new customers start service, trimming vegetation, and addressing animal-caused outages.[40] The District Representative assigned to Slayton happens to live in Slayton, but is responsible for a geographic area of approximately 708 square miles.[41]

36. Xcel Energy's primary service center for Slayton is located in Pipestone, which is located 30 miles west of Slayton along Highway 30. The technicians based out

[35] Ex. Xcel Energy-214, Marshall Direct at 17:14-22.
[36] Ex. Xcel Energy-214, Marshall Direct at 17:25-18:2.
[37] Ex. Xcel Energy-214, Marshall Direct at 18:19-19:9.
[38] Ex. Xcel Energy-214, Marshall Direct at 18:6-9.
[39] Ex. Xcel Energy-214, Marshall Direct at 18:19-27.
[40] Ex. Xcel Energy-214, Marshall Direct at 13:3-9.
[41] Ex. Xcel Energy-203, Krug Rebuttal at 3:7-19.

of this service center perform a variety of maintenance tasks, respond to specific customer requests, perform ongoing maintenance and vegetation management, replace equipment, perform upgrades and pivot to emergency response as needed.[42]

B. Reliability Performance

37. As a regulated electric utility, Xcel Energy is required to measure and annually report its service quality to the Commission using three metrics: system average interruption duration index (SAIDI), system average interruption frequency index (SAIFI), and customer average interruption duration index (CAIDI).

38. The storm-normalized SAIDI, SAIFI and CAIDI metrics are provided in Tables 1, 2, and 3.

Table 1
SAIDI[43]

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Minnesota	90.0	90.5	75.0	96.1	81.0	98.9	88.8	90.0	86.4	110.0
Southeast	86.5	110.2	96.3	118.8	129.1	105.1	79.8	111.8	87.3	121.5
Slayton	99.1	44.9	27.4	123.4	78.5	197.9	62.7	120.1	53.3	182.6

[42] Ex. Xcel Energy-214, Marshall Direct at 13:3-14:2.
[43] Ex. Xcel Energy-214, Marshall Direct at 9:15-17.

Table 2
SAIFI[44]

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Minnesota	0.83	0.83	0.74	0.89	0.75	0.99	0.92	0.86	0.85	1.08
Southeast	0.75	0.85	0.84	0.92	0.93	0.87	0.76	0.91	0.71	0.92
Slayton	1.09	0.10	0.17	1.43	1.11	2.44	0.28	0.62	0.33	2.32

Table 3
CAIDI[45]

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Minnesota	108	109	101	107	108	100	96	104	102	102
Southeast	115	130	115	130	139	120	105	123	122	132
Slayton	91	468	163	86	71	81	222	194	162	79

39. This service quality data demonstrates that Xcel Energy provides service to Slayton that is consistent with service provided elsewhere in Xcel Energy's Minnesota service territory.[46]

[44] *Id.* at 10:7-9.
[45] *Id.* at 11:1-3.
[46] Ex. Xcel Energy-214, Marshall Direct at 11:10-17, 11:20-24, 12:3-8, 12:11-12, and 12:14-17.

C. The Municipalization Process and Slayton's Plans for Providing Electric Service

40. Xcel Energy presented the following evidence concerning events that occurred prior to the municipalization vote in May 2024:

- In late 2021, Slayton hired a consultant to evaluate the formation of a municipal utility.[47]
- In October 2021, the CEO of Nobles Cooperative Electric (Nobles) emailed Slayton with a list of questions and information he wanted about Xcel Energy's customers located in Slayton, and asked for a meeting.[48]
- There were further emails about a sale in March 2022[49] and more emails were exchanged in October 2022.[50]
- In April 2023, Nobles discussed with its own bank whether it could loan money to Slayton, and the Nobles CEO sent an email to the City confirming that its bank could make a loan to municipals.[51]
- In 2023, the Nobles CEO emailed the City to suggest that Xcel Energy's rates are too high because of its investments in wind and solar, based on an article published by the Center for the American Experiment.[52]

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[47] Ex. Xcel Energy-214, Marshall Direct at 4:1-2.
[48] Ex. Xcel Energy-202, Krug Direct, Schedule 9 at 15-16.
[49] *Id.* Schedule 9 at 1.
[50] *Id.* Schedule 9 at 2.
[51] *Id.* Schedule 9 at 11.
[52] *Id.* Schedule 6.

- In November 2023, Nobles and other cooperative entities "investigated" Xcel Energy's annual reporting to the Commission, provided the results of that analysis to the City, and requested a meeting to discuss it.[53]
- In December 2023, the Nobles CEO emailed the City to share an article about municipalization efforts in New York.[54]
- Around the end of 2023, employees of Nobles built a website for a Slayton municipal utility and met with the City to get feedback.[55] Nobles also designed an information brochure and mailer for the City, and offered to split the cost of having them printed with the City.[56]
- In February 2024, Nobles emailed the City to suggest that changes to Community Solar Bill credits would be "good news" for Nobles' plan to have Slayton "buyout" Xcel Energy's property.[57]

41. The City proceeded to pursue municipalization, and on May 14, 2024, the residents of the City voted that the City could acquire Xcel Energy's electric distribution facilities within city limits and form a municipal electric utility, but only for a purchase price of less than $7 million.[58]

42. In December 2024, Nobles recommended that Slayton begin this litigation before the Commission. Nobles emailed the City to provide strategic advice about Xcel

[53] *Id.* Schedule 9 at 3-7.
[54] *Id.* Schedule 9 at 10.
[55] Ex. Xcel Energy-202, Krug Direct, Schedule 9 at 19-24.
[56] *Id.* Schedule 9 at 25-26.
[57] *Id.* Schedule 9 at 9.
[58] Ex. Slayton-100, Petition at 6.

Energy's need to update the meters in the City and advocated that "[i]t may be time to play the PUC intervention card."[59]

43. On February 24, 2025, the Slayton filed a petition for the determination of compensation under Minn. Stat. § 216B.45.[60]

44. In its Petition, Slayton states that the drivers for exploring municipalization were dissatisfaction with the reliability of electric service and the response time for repair crews to reach Slayton from Sioux Falls, South Dakota.[61] As noted above, the Xcel Energy employees who provide repair and technical services in Slayton are located in Pipestone, approximately 30 miles away, and not in Sioux Falls.[62]

45. If Slayton exits Xcel Energy's system as proposed, it does not presently have the capacity to provide electric service and will need to contract with a different utility to provide all the functions of utility service. The record establishes that Slayton plans to contract with Nobles.

46. Xcel Energy introduced evidence demonstrating that Slayton plans for Nobles to provide nearly all aspects of utility customers to people living in Slayton.:

- Slayton does not have any employees who would work at the Slayton electric utility, and does not plan to hire any employees to do so;[63]
- The City plans for Nobles to acquire electricity for the City;[64]

[59] Ex. Xcel Energy-202, Krug Direct, Schedule 9 at 12.
[60] Ex. Slayton-100, Petition
[61] *Id.* at 2.
[62] Ex. Xcel Energy-214, Marshall Direct at 13:3-14:2.
[63] Ex. Xcel Energy-202, Krug Direct, Schedule 5.
[64] *Id.* Schedule 2.

- The City plans for Nobles to operate and maintain the distribution system in Slayton;[65]
- The City plans for Nobles to read meters, bill customers, and collect payments from customers;[66]
- The City plans for Nobles to handle legally required disconnection notices and disconnections;[67]
- The City plans that retail customers receiving service from the "Slayton municipal utility" would be eligible for conservation and energy management programs, rebates, incentives, and load management programs offered by Nobles to retail customers of Nobles, and there is no indication that the City would offer any similar programs of its own;[68]
- The City plans for, or has at least discussed, that Nobles would purchase the bond that the City requires to finance its purchase of the Company's property, indicating that the money to complete the transaction would come from Nobles;[69] and
- The City plans that customers of the "Slayton municipal utility" would take service from the transmission system using a substation owned by Nobles,

[65] *Id.* Schedule 3.
[66] Ex. Xcel Energy-202, Krug Direct, Schedule 4.
[67] *Id.* Schedule 4.
[68] *Id.* Schedule 2 at 4.
[69] *Id.* Schedule 7.

not the City, which means that the City would not have the physical capability to provide service to customers in the City without Nobles.[70]

47. Slayton stated that the purpose of its effort is to ensure local control,[71] and that it "absolutely intends to own and operate a municipal utility."[72] Slayton also asserts that it is standard for municipal utilities to contract with other utilities for services,[73] and an existing municipal utility may contract with another utility for some services related to the utility property that it already owns.[74]

D. Potential Impacts of Municipalization

48. If Slayton exits Xcel Energy's system, the people living inside the City limits would no longer be customers of Xcel Energy and would lose access to Xcel Energy programs, including low-income programs, conservation programs, and programs related to distributed energy resources like Solar*Rewards and Renewable*Connect.[75]

49. Slayton customers may be negatively impacted by losing access to certain Xcel Energy programs, such as:

- Customers who have already invested in rooftop solar will lose access to certain programs,[76] including possible losses of certain credits or incentives.[77]

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[70] *Id.* Schedule 8.
[71] Ex. Slayton-110, Malchow Rebuttal at 8:20-25.
[72] *Id.* at 4:23.
[73] Ex. Slayton-105, Berg Rebuttal at 44:20-46:18.
[74] Ex. Slayton-105, Berg Rebuttal at 44:20-46:18.
[75] Ex. Xcel Energy-204, Peterson Direct at 39:4-8.
[76] *Id.* at 38:19-40:3.
[77] *Id.*

- Slayton has 221 customers, which is approximately 1/5th of the City, that are subscribed to Community Solar Gardens (CSGs),[78] which allows them to receive CSG bill credits.[79] Only Xcel Energy customers can subscribe to CSGs, so if Slayton exits the system, these customers will no longer be able to receive credits from Slayton/Nobles, and are at risk of contractual disputes with CSG developers.[80]

50. Xcel Energy is also at risk of losing access to renewable energy credits that were part of the original program design.[81]

V. LEGAL STANDARD FOR THE PROPOSED TRANSACTION

51. This case is the first proceeding determining just compensation under Minn. Stat. § 216B.45, and this is the first time the Commission will determine compensation under the statutory framework established in this section.[82]

52. Minn. Stat. § 216B.45 permits municipalities, in some circumstances, to purchase the utility infrastructure of a public utility operating within its borders.

53. Minnesota law allows eligible municipalities to purchase utility equipment inside municipal boundaries in some situations, but also requires that the eligible municipality pay just compensation before doing so.[83]

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[78] Ex. Xcel Energy-204, Peterson Direct at 35:15-36:23.
[79] *Id.*
[80] *Id.*
[81] *Id.*
[82] Exs. Slayton-100, Petition at 7; Xcel Energy-202, Krug Direct at 5:8-13. *See also* Ex. Slayton-102, Reply Comments of the City of Slayton at 5.
[83] Minn. Stat. § 216B.45.

54. The purpose of just compensation is to protect other customers from the impact of this cost-shift, and just compensation is critical to protect the existing utilities' other customers.

55. In determining just compensation, the Commission is required to consider four factors: (1) "the original cost of the property less depreciation", (2) "loss of revenue to the utility", (3) "expenses resulting from integration of facilities", and (4) "other appropriate factors."[84]

56. The Commission has previously explained, in a different but related context, that the purpose of the lost revenue factor is to "put the displaced utility in the same position it would have occupied had the acquisition not occurred."[85]

57. If Slayton exits the system, the Slayton customers will no longer contribute to shared costs and that cost burden will be shifted to Xcel Energy's other customers. Accordingly, the purpose of the lost revenue factor is to ensure that Xcel Energy's other customers are not subjected to a rate increase because of Slayton's decision to exit the system.

A. Extent to which Section 216B.44 Provide Guidance

58. The Commission has considered other cases under a similar statute, Minn. Stat. § 216B.44, which was enacted along with section 216B.45 as part of the Minnesota Public Utilities Act.[86]

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[84] Minn. Stat. § 216B.45.

[85] *In the Matter of the Complaint Regarding the Annexation of a Portion of the Service Territory of People's Cooperative Power Association by the City of Rochester (North Park Additions),* Docket No. E132, 299/SA-88-270, ORDER DETERMINING COMPENSATION at 11 (July 11, 1990).

[86] Laws of Minnesota 1974, Ch. 429, sec. 44, 45.

59. Sections 216B.45 and 216B.44 both allow a municipality to purchase the property of a utility operating within its boundaries, but under different circumstance. Minn. Stat. § 216B.44 allows a municipality that "owns and operates an electric utility" to purchase the facilities of the electric utility serving within its corporate boundaries. In contrast, Minn. Stat. § 216B.45, allows a municipality to form a new municipal utility by taking over the exclusive service territory of an electric utility.

60. Sections 216B.44 and 216B.45 both require that the Commission determine compensation due to the displaced electric utility. Although the two statutes use different terms to refer to total compensation,[87] both require that Commission determine compensation using the same four factors: (1) "the original cost of the property, less depreciation," (2) "loss of revenue to the utility formerly serving the area," (3) "expenses resulting from integration of facilities," and (4) "other appropriate factors."[88]

61. Section 216B.44 cases are persuasive, but they are not controlling. A determination of just compensation is a fact-specific analysis that must be evaluated based on the specific facts in each case.[89]

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[87] Minn. Stat. § 216B.44 requires the Commission to determine "the appropriate value of the property", whereas, Minn. Stat. § 216B.45 requires the Commission to determine "just compensation" for the property.

[88] *Compare* Minn. Stat. § 216B.44(b) *with* Minn. Stat. § 216B.45.

[89] *E.g., In the Matter of the Application of the City of Buffalo to Extend its Assigned Service Area into the Area Presently Assigned to Wright-Hennepin Cooperative Electric Association*, Docket No. E-221, 148/SA-03-989, ORDER DETERMINING COMPENSATION AND REQUIRING COMPLIANCE FILING at 8 (April 1, 2005) ("To calculate the expenses the displaced utility will avoid by not serving the area, the Commission conducts a factual analysis of the utility's existing system, projected future growth, and plans for future system expansion."); *In the Matter of the Application of the City of Redwood Falls to Extend its Assigned Service Area into the Area Presently Served by Redwood Electric Cooperative*, Docket No. E-135, 298/SA-05-1274, ORDER DETERMINING COMPENSATION at 4 (June 27, 2007) (describing the lost revenue analysis being based on the following facts "the gross revenues the utility would have received if it were serving the area", number of customers, usage per customer, utility's rates, billing determinants, and avoided costs).

62. This matter, unlike the prior cases decided under section 216B.44, involves the transfer of an entire town from one utility to another and involves more customers.[90]

63. Additionally, this matter involves a vertically integrated utility that provides distribution, generation, and transmission service to the municipality. This is distinguishable from prior section 216B.44 cases which involved cooperative utilities which provided distribution service.[91]

64. These factual differences must be taken into account in determining just compensation.

B. Burden of Proof

65. Xcel Energy states that, pursuant to Minn. R. 1400.7300, subd. 5, Slayton bears the burden of proof to demonstrate by a preponderance of the evidence that its proposed just compensation is reasonable and consistent with the law.[92]

66. The Department agrees that, under Minn. R. 1400.7300, subd. 5, Slayton has the burden to established that its proposed compensation to acquire Xcel Energy's facilities is just by a preponderance of the evidence.[93]

67. The City disagrees, contending that it is fundamental to eminent domain cases and other civil proceedings that the party alleging damages and claiming compensation carriers the burden of proof on those claims.[94] The City also references two

[90] Xcel Energy Initial Brief at 13.
[91] *Id.*
[92] Xcel Energy Initial Brief at 14.
[93] DOC Initial Brief at 2.
[94] Slayton Initial Brief at 14.

Section 216B.44 cases which it claims demonstrates that the Company has the burden of proof to show damages.[95]

68. In its Reply Brief, Xcel Energy observes that this is not an eminent domains case, as demonstrated by the statutory text of Minn. Stat. § 216B.47, and that Minnesota courts have held that eminent domain proceedings under section 216B.47 do not apply the standards of other eminent domain proceedings.[96] Xcel Energy notes that the two Section 216B.44 do not establish the burden of proof for this Section 216B.45 proceeding.

69. In an administrative law proceeding, like this one, "[t]he party proposing that certain action be taken must prove the facts at issue by a preponderance of the evidence, unless the substantive law provides a different burden or standard."[97] Minn. Stat. § 216B.45 does not provide a different burden or standard.

70. Consistent with this policy of protecting customers from negative impacts, Minnesota law makes clear that any doubt as to reasonableness must be resolved in favor of customers. In this context, that means that doubts should be resolved in favor of protecting Xcel Energy's customers from a rate increase.[98]

71. The Administrative Law Judge finds that under Minn. Stat. § 216B.45, Slayton. bears the burden of proof to demonstrate by a preponderance of the evidence that its proposed just compensation is reasonable and consistent with the law. Slayton is the

[95] Slayton Initial Brief at 14 (citing *In re City of Grand Rapids*, ORDER DETERMINING COMPENSATION at 18; *In re City of Redwood Falls*, ORDER DETERMINING COMPENSATION at 10).
[96] Xcel Energy Reply Brief at Section I.
[97] Minn. R. 1400.7300, subd. 5.
[98] Minn. Stat. § 216B.03.

party proposing to change the status quo by exiting the Company's system,[99] and as a result it bears the burden of proof to show that its calculation of just compensation is reasonable by a preponderance of the evidence.

VI. ELIGIBILITY

72. Xcel Energy argues that Minn. Stat. § 216B.45 does not permit a municipality to take the property of a private business for the benefit of another private business.

73. Xcel Energy states that taking private property in order to construct utility facilities would be a public use.[100] Taking Xcel Energy's property so that customers in Slayton can receive service from Nobles instead of Xcel Energy is not a public use. Forming a municipal utility that cannot actually provide service as a pretext for receiving service from Nobles instead of Xcel Energy is also not a public use.[101]

74. Minnesota law does not permit customers to choose their service provider except in very limited circumstances that do not apply here. Instead, utilities are assigned exclusive service territory along with the right and obligation to provide service to all customers in that service territory.[102]

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[99] *See Matter of Yanez*, 983 N.W.2d 89, 94-95 (Minn. App. 2022).
[100] Minn. Stat. § 117.025, subd. 11.
[101] *See Kelo v. City of New London, Conn.*, 545 U.S. 469, 477-78 (2005) ("Nor would the City be allowed to take property under the mere pretext of a public purpose, when its actual purpose was to bestow a private benefit.").
[102] Minn. Stat. § 216B.37 ("It is hereby declared to be in the public interest that . . . the state of Minnesota shall be divided into geographic service areas within which a specified electric utility shall provide electric service to customers on an exclusive basis.").

75. The record demonstrates that Nobles would provide every utility function necessary to provide service in Slayton, and Slayton's "utility" will not have the capability or even the physical possibility of providing service without Nobles.

76. Utilities are not permitted to compete against each other to take each other's service territory and customers. There is no legitimate public use or public purpose in taking Xcel Energy's property so that Nobles provides service to the customers in Slayton instead of Xcel Energy.

77. Based on these facts, Slayton's proposal to purchase Xcel Energy's property so that it can receive service from Nobles instead of Xcel Energy is not consistent with the law and does not meet the requirements of Minn. Stat. § 216B.45. There is no public use in transferring customers from a public utility in order to avoid compliance with the State's policy preferences, such as the Carbon Free Standard.

78. Accordingly, the Company is not legally required to sell its property as part of this transaction but if it elects to proceed with a transaction, it must be paid just compensation.

VII. JUST COMPENSATION CALCULATION

79. If Slayton proceeds to purchase the Company's property inside City limits, the City is required by law to pay just compensation to the Company.[103] The Commission is required to consider four factors in determining this compensation. These factors are: (1)

[103] Minn. Stat. § 216B.45.

"the original cost of the property less depreciation", (2) "loss of revenue to the utility", (3) "expenses resulting from integration of facilities", and (4) "other appropriate factors".[104]

80. Xcel Energy recommended the following just compensation:

Value of Property	$3,220,653
Loss of Revenue*	$34,710,977
Meter Integration Expense	Actual Cost, Est. $140,000
Continued Service Integration Expense	Actual Cost, Est. $15,000
Customer DER Integration Expense	Actual Cost, To Be Identified
Engineering Studies and Upgrades Integration Expense	Actual Cost, To Be Identified
MN DIP Impact Integration Expense	Actual Cost, To Be Identified
Stranded Slayton West Substation	$1,131,354
Total	**$39,217,984**

*or $3,153,021 per year for twenty years

81. Xcel Energy has committed that any just compensation it receives from Slayton will be credited to other customers.[105]

82. Slayton recommended the following for just compensation:[106]

[104] Minn. Stat. § 216B.45.
[105] Xcel Energy Initial Brief at 1; Ex. Xcel Energy-202, Krug Direct at 7:4-6.
[106] Slayton Initial Brief at 14-15, 43.

Original Cost of Facilities Less Depreciation	$3,220,652.56 (adjusted to date of transfer)
Loss of Revenue	4.2 Mills per kWh sold for five years
Costs of Integration	$15,000.00
Other Factors	None

83. The Department made a number of recommendations concerning the City and Xcel Energy's respective proposals as discussed further herein, and recommended that: (i) the Commission should apply the Department's recommended lost revenue methodology over a ten-year period;[107] (ii) in applying the Department's lost revenue methodology over a ten-year period, the Commission should consider reasonably foreseeable future customer growth in the loss of revenue calculation;[108] (iii) the Commission should take a closer look at which costs can be directly attributed to the loss of service or customers relevant to the transaction in determining Xcel Energy's avoided costs;[109] and (iv) the Commission should either require the City to make a lump-sum payment or a mill-rate payment to compensate Xcel Energy for lost revenue.[110]

84. In order to determine the most reasonable and well supported methodology, it is necessary to calculate just compensation by considering the specific facts of this case.

85. The purpose of just compensation is to protect Xcel Energy's remaining customers from a cost-shift due to Slayton leaving Xcel Energy's system. As such, in assessing the various methodologies presented by the parties, the selected methodology

[107] Department Initial Brief at 5-6.
[108] Department Initial Brief at 6.
[109] Department Initial Brief at 7-8.
[110] Department Initial Brief at 8.

must result in just compensation that is reasonable, consistent with the law, and will not cause rate impacts for Xcel Energy's other customers.

A. Value of the Property

86. The first factor to be considered in determining just compensation is "the original cost of the property less depreciation" referred to in this case as the "value of property."[111]

87. The parties do not dispute the value of the property.[112] All parties agree on the calculation of the first factor, the value of the property, and agree that the amount will be updated at the time of transfer.

88. The parties agree that the original cost of the distribution infrastructure located inside City limits is $4,714,674, and, when accounting for depreciation, the current value of the property is $3,220,653.[113]

89. All three parties also agree that the final amount for the value of property should be updated at the time of a future transaction, if one takes place. Both Slayton [114] and Xcel Energy[115] agree to the methodology explained by Company witness Peterson, "[t]he final value of property will need to be updated to reflect additional depreciation for the equipment currently installed, and the possibility that new equipment will be needed to

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[111] Ex. Xcel Energy-204, Peterson Direct at 4:23-24.
[112] Ex. Slayton-105, Berg Rebuttal at 2:21-22.
[113] Ex. Xcel Energy-204, Peterson Direct at 10:12-26. Detailed information about the property is included at Ex. Xcel-205, Peterson Trade Secret Direct, Schedule 1.
[114] Ex. Slayton-105, Berg Rebuttal at 3:16-19.
[115] *Id.* at 11:16-17.

continue to provide safe and reliable service to Slayton customers while the purchase is pending."[116]

90. The Department likewise agrees with the methodology agreed upon by Slayton and Xcel Energy, and states that the Commission should require Xcel Energy to update and document the net book value including a list of the final assets, their original cost, and their accumulated depreciation at the time of the transfer to ensure that the property values are up-to-date at the transaction close.[117]

91. To the extent that Xcel Energy deploys any additional equipment or other investment which it would expect to be included in these costs, Xcel Energy should be allowed to include the costs of reasonable and prudent investments, less depreciation, in just compensation.

B. Loss of Revenue to the Utility

92. The second factor to be considered in determining just compensation is "loss of revenue to the utility."[118] The purpose of the lost revenue factor is to protect the utility's other customers from any negative cost impacts when a municipality decides to exit the system.[119] Without this protection, a municipality's decision to leave the system would increase costs for other customers because of the nature of utility ratemaking.

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[116] Ex. Xcel Energy-204, Peterson Direct at 11:8-12.
[117] Department Initial Brief at 4, citing Ex. DOC-301 at 6 (Ngo Rebuttal).
[118] Minn. Stat. § 216B.45.
[119] Ex. Xcel Energy-202, Krug Direct at 8:2-15. *See also In the Matter of the Application of the City of Olivia to Extend its Municipal Electric Service Area into an Area Served by Renville-Sibley Cooperative Power Association*, Docket No. E288, 136/SA-85-93, FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER SETTING COMPENSATION FOR SERVICE EXTENSION at 8, 13 (June 27, 1986) (adopting the ALJ's recommendation that "the remaining members of the [utility] should not experience a rate increase as a result of this acquisition proceeding" and establishing loss of revenue "[t]o prevent a rate increase for those [remaining] member-consumers as a result of the acquisition").

93. To calculate lost revenues, the Company performed the following steps: (1) determine the relevant time period to be evaluated for lost revenue; (2) determine the amount of revenue from Slayton customers during the relevant time period; (3) determine the amount of that revenue that is "lost"; (4) determine the amount of lost revenue during each year of the relevant period; and (5) adjust the lost revenue as needed to account for the method of recovery.[120] The Company provided a clear and transparent schedule documenting these steps.[121]

1. Lost Revenue Time Period

94. Minn. Stat. § 216B.45 provides that lost revenue must include "loss of revenue to the utility," without any limitation on the time that should be evaluated.

95. The Company is currently recovering revenue from customers living in Slayton each year. If Slayton exits the system, the Company will lose that revenue in perpetuity.

96. Based on a fact specific evaluation of the time horizon for the Company's planning processes, and the expected life of the investments that make up the costs Slayton's revenues are paying for, the Company proposed a lost revenue time period of 20 years. Slayton proposes a time period of five years based on its theory that Xcel Energy can adjust its operations within five years.

[120] Ex. Xcel Energy-204, Peterson Direct at 12:1-7. This methodology is consistent with the "net revenue loss" method described by the Commission in *In the Matter of the Application of the City of Redwood Falls to Extend its Assigned Service Area into the Area Presently Served by Redwood Electric Cooperative*, Docket No. E-135,298/SA-05-1275, ORDER DETERMINING COMPENSATION at 4 (June 27, 2007).
[121] Ex. Xcel Energy-208, Peterson Surrebuttal, Schedule 1.

a) Utility Planning Horizons

97. It is appropriate for the Commission to consider a Company's planning horizon in setting the appropriate time periods for lost revenues under Minn. Stat. § 216B.44.

98. In past Commission decisions, such the *North Park Additions* case, the Commission established a ten-year time period because "ten years is a standard planning horizon for rural electric co-operatives for the construction of basic utility facilities such as substations and major feeders."[122]

99. The Federal Energy Regulatory Commission (FERC) has similarly decided two municipalization cases, and in each case it based the lost revenue recovery period on the planning period of the utility.[123] In the *City of Las Cruces* case, the FERC concluded that El Paso Electric Company had used a 20-year planning horizon to select the investments at issue, that the utility had a reasonable expectation of continuing to provide service to the city during that 20-year time period, and established a 20 year lost revenue time period.[124] In the *City of Alma* case, the FERC confirmed that the lost revenue time period should be based on the utility's actual planning horizon.[125] In that case, the record

[122] *In the Matter of the Complaint Regarding the Annexation of a Portion of the Service Territory of People's Power Association by the City of Rochester (North Park Additions)*, Docket No. E-132,299/SA-88-270 ORDER DETERMINING COMPENSATION at 13 (July 11, 1990). *See also In the Matter of the Application of the City of Olivia to Extend its Municipal Electric Service Area into an Area Served by Renville-Sibley Cooperative Power Association*, Docket No. E288, 136/SA-85-93, FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER SETTING COMPENSATION FOR SERVICE EXTENSION at 15 (June 27, 1986) (establishing the lost revenue time period based in part on the cooperative's use of "a ten-year period for planning purposes.").
[123] Xcel Energy Initial Brief at 30.
[124] *City of Las Cruces, New Mexico v. El Paso Electric Company*, 87 FERC ¶ 61,201, 61,750 (May 26, 1999).
[125] *City of Alma, Michigan,* 96 FERC ¶ 61,163, 61,714 (July 30, 2001).

demonstrated that the relevant planning period was 15 years, so the FERC established a lost revenue time period of 15 years.[126]

100. The Department states that the lost revenue time period should be ten years because that is what the Commission has done in previous cases under non-precedential section 216B.44.[127]

101. While these cases are relevant, the key holding from these decisions was not that the lost revenue time period should always be ten years; it was that establishing the lost revenue time period required a fact-based evaluation of the record, based on the utility's planning horizon.

102. In this case, the Company provided specific evidence that its planning horizon is 30 years for generation resources and 10 years for distribution.

b) <u>Generation Planning Horizon</u>

103. Xcel Energy presented testimony from Dr. Bixuan Sun, who is the Director of Resource Planning and Bidding, and has responsibility for the Company's planning horizons.[128]

104. The Company has a different planning horizon for generation and distribution resources,[129] and Dr. Sun provided testimony about the planning horizons and how they should be understood in relation to lost revenues.

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[126] *Id.*
[127] Ex. DOC-301, Ngo Rebuttal at 8:3-10.
[128] Ex. Xcel Energy-210, Sun Direct at 1, Schedule 1.
[129] Company witness Sun provided testimony regarding transmission planning horizons, but since the Company now agrees that transmission costs are avoidable the transmission planning horizon is not relevant here.

105. For generation planning, the Company conducts resource planning in Integrated Resource Plans (IRP), using a modeling software called EnCompass.[130] The time horizon for EnCompass modeling runs is 30 years.[131] The 30-year timeline stems from regulatory requirements.

106. Xcel Energy's generation resources in Minnesota are part of its Upper Midwest system, which includes Minnesota, North Dakota, South Dakota, Wisconsin, and Michigan.[132] Wisconsin regulations require Xcel Energy to conduct its IRP modeling using a 30-year modeling horizon, and the Public Service Commission of Wisconsin requires that capacity expansion modeling use a 30-year evaluation period.[133] Because the Company conducts unified planning for the entire Upper Midwest system, the 30-year requirement applies to all states that are part of that system.

107. Slayton witness Berg states that the planning horizon is 15 years, not 30 years[134] and states that the IRP planning horizon is not relevant at all.[135]

108. Witness Berg's arguments are not supported by the record, as Wisconsin regulations require the Company to use a 30 year modeling period for the IRP.

109. Witness Berg's assertions are not supported by record evidence because prior decisions under section 216B.44, and regulations of the FERC make clear that the planning horizon is a relevant fact.[136]

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[130] Ex. Xcel Energy-210, Sun Direct at 3:5-20.
[131] *Id.*
[132] Ex. Xcel Energy-210, Sun Direct at 3:5-20.
[133] *Id.* at 3, n.2.
[134] *Id.*
[135] *Id.* at 37:19-21.
[136] Xcel Energy Initial Brief at 30, 32.

110. Slayton witness Berg also argues that the IRP is not relevant because the Company can change its plans to account for Slayton in the future.[137] But the City fails to identify what adjustments it thinks the Company should make and fails to explain how adjusting future planning would impact the cost of investments the Company has already made. [138]

111. In the *North Park Additions* case, the Commission acknowledged that:

> Construction plans implement the requirements of long range plans, however. They are not the result of comprehensive re-examination of the service needs of a utility's assigned service area. Furthermore, once facilities are installed pursuant to long range plans, they remain in place, whether or not anticipated loads materialize.[139]

112. Accordingly, once projects are constructed, they are in the ground, and their costs will not disappear just because one community exits the system. Because those projects are selected using long-term planning, it is reasonable to rely on the long-term planning horizon to determine the lost revenue time period.

c) Distribution Planning Horizon

113. For distribution planning, the Company's main planning process is the Integrated Distribution Plan (IDP).[140] The Commission requires Xcel Energy to file an IDP every two years with a 10-year planning horizon, including a 10-year Long-Term Plan.[141]

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[137] Ex. Xcel Energy-210, Sun Direct at 37.
[138] Ex. Xcel Energy-208, Peterson Surrebuttal at 28, n.29.
[139] *In the Matter of the Complaint Regarding the Annexation of a Portion of the Service Territory of People's Cooperative Power Association by the City of Rochester (North Park Addition)*, Docket No. E-132,299/SA-88-270, ORDER DETERMINING COMPENSATION at 13-14 (July 11, 1990).
[140] Ex. Xcel Energy-210, Sun Direct at 4.
[141] *In the Matter of Xcel Energy's 2023 Integrated Distribution Plan*, Docket No. E002/M-23-452, MINNESOTA INTEGRATED DISTRIBUTION PLANNING REQUIREMENTS FOR XCEL ENERGY at 2 (Sept. 16, 2024). The distribution

114. Paragraph 1 of the Distribution System Plan Process established by the Commission provides that Xcel must "file annually with the Commission beginning on November 1, 2018, and biennially starting Nov. 1, 2021 an Integrated Distribution Plan (MN-IDP or IDP) for the 10-year period following the submittal."[142]

115. Slayton argues that, despite the Commission's requirements to provide a 10-year plan, the IDP is actually a 5-year plan.[143] Because the IDP includes a 5-year capital plan, the City suggests that the distribution planning horizon is 5 years, rather than ten.

116. The record evidence supports a ten year distribution planning horizon. The Commission's filing requirements state that "Xcel shall provide a 5-year Action Plan as part of a 10-year long term plan"[144] and the ten year plan must "address long-term assumptions (including load growth assumptions), the long-term impact of the 5-year Action Plan investments, what changes are necessary to incorporate DER into future planning processes based on the DER futures analysis, and any other types of changes that may need to take place in the tools and processes Xcel is currently using."[145]

117. Further, the IDP includes evaluation of longer, 30-year forecasting as well as the specific 5- and 10-year planning.[146] While the IDP does include 5-year plans, they are included within the 10-year planning horizon, which is the focus for determining the long-

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planning requirements for Xcel Energy are attached to the Commission's September 16, 2023 Order Accepting 2023 Integrated Distribution Plan and Modifying Reporting Requirements in Docket 23-452.

[142] *Id.* (emphasis added).

[143] Exs. Slayton-105, Berg Rebuttal at 40; Slayton-115, Fritsch Rebuttal (Redacted) at 12:12-13:6.

[144] *In the Matter of Xcel Energy's 2023 Integrated Distribution Plan*, Docket No. E002/M-23-452, MINNESOTA INTEGRATED DISTRIBUTION PLANNING REQUIREMENTS FOR XCEL ENERGY at 8 (Sept. 16, 2024).

[145] *Id.* at 9.

[146] *In the Matter of Xcel Energy's 2025 Integrated Distribution Plan*, Docket No. E002/M-25-142, Integrated Distribution Plan at Chapter 1, page 74, Figure 1-29 (Oct. 31, 2025).

term investments that the distribution system needs going forward, and the process involves longer planning considerations as well.

118. The facts in this record demonstrate that the Company's planning horizons are at least 10 years for distribution planning and 30 years for generation planning.

d) <u>Expected Life of Investments</u>

119. It is also reasonable to consider the expected life of the Company's investments. As explained by Company witness Peterson, the Company is subject to cost-based ratemaking which means the revenues Slayton customers pay are based on the cost of providing service.[147]

120. The record indicated that these investments were planned and constructed with the expectation that customers in Slayton would pay their fair share of the costs for the entire life of the investments. For that reason, it is relevant to analyze how long Slayton customers were expected to contribute to the costs at the time the investments were made.

121. Production and distribution costs should be included in the lost revenue calculation. The expected lives of distribution assets are evaluated routinely in five-year depreciation studies. The most recent study to be approved was in Docket No. E,G002/D-22-299, where the Commission approved an expected useful life of 44 years for distribution poles, towers, and fixtures.[148] The expected useful life of overhead and underground conductors is 37 and 67 years, respectively.[149] That means that when the Company invests

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[147] Ex. Xcel Energy-204, Peterson Direct at 13.
[148] *Id.* at 14:13-15.
[149] *Id.* at 14:15-16.

in distribution projects, it expects to recover the costs of those projects over a time period between 37 and 67 years.

122. The remaining life of generation units is more specific for each individual unit. Company witness Peterson explained that the most recently constructed wind resources have an expected life of greater than 30 years, and recent solar projects have expected lives of 35 years.[150] The Company's natural gas power plants have remaining lives of between 20 and 30 years.[151] The Company's nuclear plants were constructed in the 1970s and are licensed to operate until 2030 and 2050, suggesting a remaining life of many decades.[152]

123. When the Company invests in generation units, it has demonstrated that it expects to recover the cost of those investments over a time period longer than 20 years.

e) <u>Recommendation on Time Period for Lost Revenue</u>

124. Slayton proposes a five-year period based on a net-margin-per-kWh figure derived from 2026 revenue-requirement.[153] The City's five-year proposal is shorter than the historical benchmark in Minn. Stat. § 216B.44. The City defines the relevant time horizon as the time it would take the incumbent utility to adjust its operations for the loss of the service territory.[154]

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[150] *Id.* at 14:19-22.
[151] *Id.* at 14:22-15:1.
[152] Ex. Xcel Energy-204, Peterson Direct at 15:1-4.
[153] Ex. Slayton-114 at 33 (Berg Surrebuttal); *see also* Department Initial Brief at 6.
[154] Ex. Slayton-103 at 40 (Berg Direct); s*ee also* Department Initial Brief at 6.

125. The City believes a five-year time horizon provides Xcel Energy with a reasonable time period to fully mitigate and adjust its overall system to the small loss of Slayton's load.[155]

126. The Department recommended a lost revenue methodology over a ten-year period,[156] asserting that a ten-year time horizon reasonably balances the need to compensate for real economic loss against the risk of speculative forecasts, while giving Xcel Energy a reasonable period to adjust its system to changes brought on by the property transfer.[157] The Department also cited to cases under Minn. Stat. § 216B.44, in which the Commission concluded that a ten-year time horizon is appropriate for compensating the utility's loss of revenue from both existing and future customers.[158]

127. Xcel Energy's position is supported by the record, and Slayton and the Departments' are not.

128. The evidence in the record demonstrates that the time period should be based in part on the planning horizon for Xcel Energy's infrastructure.

129. The record supports that Xcel Energy's planning horizon for distribution and generation is 10 years and 30 years, respectively.

130. In addition, it is reasonable to consider the expected life of the assets to which the lost revenues are related. These investments have expected lives of between 20 and 67 years.

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[155] Ex. Slayton-103 at 42, 48 (Berg Direct); *See also* Department Initial Brief at 6.
[156] Department Initial Brief at 5.
[157] Department Initial Brief at 5 (citing Ex. DOC-301, Ngo Rebuttal at 8).
[158] Department Initial Brief at 5.

131. Of these data points, the generation planning horizon and expected lives are the most important because 70 percent of total revenue requirements are related to fixed and variable production costs.[159] Because most of the revenues at issue are related to generation, the generation planning horizon and expected lives should be given substantial weight in determining the lost revenue time period.

132. Based on these factors, the lost revenue time period of 20 years is reasonable.

2. Slayton Revenue

133. The Company's revenue is collected from customer bills, which are based on rates and on how much energy customers consume.

134. Customer energy consumption fluctuates, and it is not possible for Xcel Energy to know precisely how much energy will be used by each customer in Slayton or what rates will be each year in the future.[160] Instead, the Company must estimate the amount of revenue that would be collected based on historical data and make reasonable assumptions about how the data would change going forward.

a) Estimating Slayton Revenue in the First Year

135. The lost revenue calculation assumes that customers in Slayton will consume an average amount of energy, based on historical averages for their customer class located in Slayton using a three year average.[161] The Company applied these average consumption amounts to (1) the number of customers currently in Slayton, and (2) current rates approved

[159] Ex. Xcel Energy-208, Peterson Surrebuttal, Schedule 1 at 6.
[160] Ex. Xcel Energy-204, Peterson Direct at 17:9-17.
[161] Ex. Xcel Energy-204, Peterson Direct at 18:4-5.

by the Commission.[162] This calculation estimates that the amount of revenue from all customers in Slayton would be $2,914,221 in 2025.[163]

136. The City approached this calculation using a slightly different methodology, but reaches a similar result. According to City witness Berg, the annual revenue requirement attributable to customers in Slayton is "approximately $3.0 million."[164]

b) <u>Estimating Slayton Revenue in Future Years</u>

137. To determine the amount of revenues from Slayton customers in future years, the Company established a reasonable growth rate for three key data points: (1) the number of customers in Slayton; (2) the amount of energy consumed by an average customer in Slayton; and (3) the rates that customers in Slayton would pay in the future.[165]

138. The growth rates for the number of customers in Slayton and the amount of energy consumed by an average customer in Slayton were taken from the sales forecast used in Xcel Energy's currently-pending rate case.[166]

139. Slayton asserted that the customer count growth rates are "not appropriate for Slayton" because (1) Slayton does not expect any increase in the number of customers or use per customer in Slayton;[167] (2) annual sales in 2024 were 5.4 percent lower than the total sales in 2015;[168] and (3) data from the U.S. Census Bureau indicates that population

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[162] *Id.* at 19:10-13 ("For the first year of the lost revenue period, the calculation uses rates as of November 1, 2025.").
[163] Ex. Xcel Energy-208, Peterson Surrebuttal, Schedule 1.
[164] Ex. Slayton-114, Berg Surrebuttal at 10:8-10.
[165] Ex. Xcel Energy-204, Peterson Direct at 17:16-19:17.
[166] Ex. Xcel Energy-208, Peterson Surrebuttal at 13:14-16.
[167] Ex. Slayton-105, Berg Rebuttal at 7:3-9.
[168] *Id.* at 7:7-8.

in Murray County, where Slayton is located, decreased from 2010 to 2020, while the statewide population increased.[169]

140. These arguments are unpersuasive and unsupported by the record for several reasons discussed below.

141. City witness Berg's claim that there will be no growth in customers or use per customer in the future could not be verified and is not supported by evidence.

142. The City cannot support the statement that sales in Slayton have decreased over time. Sales in 2024 were lower than sales in 2015, but those values are not the result of a consistent trend because the record shows that sales were higher in 2018, 2019, 2020, 2022, and 2023 than in 2015.[170] The data presented supports an overall trend of increased sales, consistent with the Company's assumptions.

143. The City has also not presented sufficient evidence to demonstrate that population decline will continue in the future. There is no evidentiary support for the City's assumption that this pattern will continue.

144. Sales in Slayton have been relatively flat even though it has experienced population decline.[171] The Company experienced declining sales from 2015 to 2024 system-wide (including Slayton),[172] but the Company produced evidence, in the form of

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[169] *Id.* at 7:12-8:1.
[170] Ex. Slayton-105, Berg Rebuttal, Slayton Information Request No. 81. The pages of City witness Berg's Rebuttal Testimony are not paginated, but IR No. 81 is located on page 71 of the electronic PDF and is the final page of the document.
[171] *Id.*
[172] Ex. Xcel Energy-208, Peterson Surrebuttal at 14:16-15:13.

its sales forecast from the pending rate case, that sales will increase in the future as a result of factors including electrification of transportation and heating.[173]

145. The Company provided specific evidence of potential economic development in the Slayton area, which could drive growth in customers counts.[174] This evidence demonstrates that, even if the population declines, there is reason to believe there will be sales increases in the future.

146. Accordingly, the evidence in the record demonstrates that the Company's growth rates for customers and use per customer are reasonable.

147. The Company also applied a growth rate to estimate the rates that will be set in the future. The Company established a growth rate based on historical data from the Energy Information Administration from 2014 to 2024.[175]

148. The lost revenue calculation assumes that rates will continue to change at the same rate going forward. The City did not dispute the reasonableness of the rate growth factor.

149. Accordingly, based on the evidence in the record, the Company's growth rate for rates is reasonable.

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[173] Ex. Xcel Energy-204, Peterson Direct at 19:6-8 (citing *In the Matter of the Application of Northern States Power Company for Authority to Increase Rates for Electric Service in Minnesota*, Docket No. E002/GR-24-320, Rebuttal Testimony of Benjamin S. Levine (Oct. 10, 2025)).
[174] Ex. Xcel Energy-206, Peterson Rebuttal at 13, n.28.
[175] Ex. Xcel Energy-204, Peterson Direct at 19, n.13.

c) Recommendation on Slayton Revenue

150. For the reasons set forth herein, there is evidence in the record to support the Company methodology for estimating the revenues from Slayton in both the first year and in all future years.

151. The Company estimates that revenues from Slayton in the first year would be $2.9 million, and that total revenues over the lost revenue period would be approximately $92.5 million.[176]

152. Accordingly, the record evidence supports approval of the Company's method for estimating the revenues from Slayton.

153. To the extent there the is a timing component for the lost revenue calculation that needs to be addressed, the calculations will need to be updated based on changes in customer counts, average consumption, rates, and growth rates based on the timing of when Slayton exits the system.[177]

3. Avoided Costs

154. After determining the amount of revenue to be paid by Slayton customers in each year, the next step in applying the Company's lost revenue model is to determine how much of that revenue is "lost."

155. The Company provided evidence that, when Slayton exits the system, the Company anticipates that certain costs will no longer be incurred. The Company may also be able to obtain additional revenue from new revenue streams, offsetting lost revenues

[176] Ex. Xcel Energy-208, Peterson Surrebuttal, Schedule 1 at 1.
[177] Xcel Energy Initial Brief at 42.

from Slayton. Costs that can be reduced or offset costs are referred to as "avoidable" and are removed from the lost revenue calculation.

156. The City and the Company disagree about how to evaluate what costs are avoidable.

157. The Company and the Department agree that avoided costs must be based on the costs the utility will actually shed due to the loss of the customers at issue.[178] Avoided costs should include (1) fuel costs that vary directly with Slayton's load, (2) "clearly variable" O&M expenses that can be shown to decrease when Slayton leaves; and (3) "demonstrable reductions" in customer service or billing costs.[179]

158. The Company and the Department agree that fixed costs, such as most production plants, general plant, and shared administrative overhead, are not immediately avoidable and should not be treated as avoided unless the City can show that these costs will actually decline as a result of Slayton's departure.[180]

159. Slayton argues that costs should be treated as avoided only if the Company will not be able to utilize the underlying asset or resource after Slayton exits the system.[181]

160. Slayton's theory of avoided costs is not consistent with the law or Commission precedent. Minn. Stat. § 216B.45 focuses on revenues, and does not mention the concept of utilization. Similarly, no Commission proceeding decided under Minn. Stat. § 216B.44 discusses the concept of utilization.

[178] Ex. DOC-301, Ngo Rebuttal at 9:11-13.
[179] *Id.* at 9:16-10:2.
[180] *Id.* at 10:3-6.
[181] Slayton Initial Brief at 16.

161. Whether or not the Company's assets and resources are utilized or not utilized after Slayton exits the system will not have any impact on whether the Company has lost revenue. The lost revenue is driven by the loss of customers in Slayton, regardless of whether assets are utilized or not.

162. The Administrative Law Judge concludes that the Company's and Department's explanation of how to evaluate avoided costs is appropriate. Slayton's theory is not reasonable.

163. Avoided costs must be identified based on actual evidence and must be clear and demonstrable.

164. The Company presented evaluations of five core categories of costs, based on the Class Cost of Service Study that is used to set rates in a rate case proceeding, as displayed in Table 4 below:

Table 4
Cost Components[182]

Cost Component
Fixed Production
Variable Production
Transmission
Distribution
Customer Costs

[182] Ex. Xcel Energy-204, Peterson Direct at 21, Table 3.

165. In order to apply the Company's avoided cost methodology, each cost category must be assessed to determine which costs could be reduced after Slayton's exit, or whether alternative revenue streams could be identified.

166. As discussed below, the Company concluded that a portion of variable production costs, distribution costs, and customer costs are avoidable. The Company also agreed with the City that transmission costs are entirely avoidable. All of these avoidable costs are excluded from the Company's lost revenue calculation.

a) <u>Resolved Avoided Cost Issues - Transmission Costs</u>

167. The Company initially recommended that transmission costs be treated as unavoidable, but changed its position after consideration of Slayton's arguments. [183] This reduces the lost revenue calculation by more than $5 million. Slayton and the Company agree that transmission costs should be treated as fully avoidable because the lost revenues from customers in Slayton will be offset by increased revenues from wholesale transmission customers.[184]

168. The parties do not agree on the remaining issues.

b) <u>Slayton's Argument about Adjustments</u>

169. As a threshold issue, many of Slayton's arguments related to lost revenues are based on its belief that the Company can "adjust" its operations to reduce costs after Slayton leaves. For example, the City argues that customer costs are fully avoidable

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[183] Slayton, in contrast, has made no adjustments to its initial recommendations.
[184] Ex. Xcel Energy-208, Peterson Surrebuttal at 24:7-13.

because the Company can "adjust its operations to adjust customer systems for the loss of Slayton customers."[185]

170. The City alleges that the Company can use future resource planning proceedings to "adjust quickly for [the] change in generating resources"[186] and also suggests that the Company can "adjust" away all of the costs for serving Slayton because Slayton is small compared to the whole system.[187] The City's argument does not identify how or where these unidentified Slayton-based assets can be adjusted to be used elsewhere.[188]

171. Slayton does not identify what adjustments it thinks the Company should make but made clear that it is not suggesting that the Company should lay off employees.[189] The Company noted that it would disrupt the status quo for the Company's remaining customers if the Company were to reduce the level of services it provides to its other customers.

172. When presenting its case, the City acknowledged that it does not quantify any adjustments or explain how much money it thinks the adjustments could save.[190] The City's analysis failed to provide specific information to support its contention that the Company can "adjust" its way out of the many investments it has made to provide service.

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[185] Ex. Slayton-105, Berg Rebuttal at 18:3-4.
[186] *Id.* at 21:14-15.
[187] *Id.* at 18:3-5, 29:1-6.
[188] *Id.* at 9:8-12.
[189] Ex. Slayton-114, Berg Surrebuttal at 9:18.
[190] Tr. Evid. Hearing at 65:18-22 (Berg) ("Q: Can you please point me to where in your testimony you have identified a specific adjustment and a specific dollar amount that you think the Company can adjust? A: I have not relative to the dollar amounts.").

173. Under the law, if this record does not demonstrate Slayton's exit will lead to reduced costs or offsetting new revenue, then the revenues must be treated as lost and included in just compensation.[191] Accordingly, the Company's methodology for adjustments is more appropriate.

c) <u>Fixed Production</u>

174. Fixed production costs represent the generation units Xcel Energy uses to create electricity. The "fixed" portion is the cost that does not change based on energy usage.[192] Around 25 percent of the revenue requirement is related to fixed production costs,[193] which means that around 25 percent of the revenues customers in Slayton pay are related to fixed production costs.

175. The power plants that make up fixed production costs are selected and constructed based on long-term planning processes. As discussed above, the Company conducts IRPs with a 30-year modeling horizon to evaluate the optimal plan to meet customer demand for electricity.[194] The IRP modeling is typically followed by resource procurement procedures, where the Company solicits bids for specific generation projects. The Commission reviews and approves the Company's selection, and then the long-term investments are constructed. For many years, these planning processes have assumed that

[191] Minn. Stat. § 216B.45.
[192] Ex. Xcel Energy-204, Peterson Direct at 24:5-6.
[193] Ex. Xcel Energy-208, Peterson Surrebuttal at Schedule 1 at 6 (893,802/3,713,015).
[194] Ex. Xcel Energy-210, Sun Direct at 3:5-20.

Slayton will continue to be part of Xcel Energy's system, and that customers in Slayton will continue to pay their fair share of generation costs.

176. Those costs cannot be reduced just because Slayton elects to exit the system. As explained by Company witness Peterson, "[w]hile we will adjust our future planning to account for the loss of Slayton customers, our existing power plants are already constructed and operating, and their costs cannot be avoided."[195] Company witness Dr. Sun, the Director of Resource Planning, testified that the Company "does not anticipate any changes to its generation portfolio, or any material impacts on fixed production cost."[196] The cost of the Company's power plants will not change if Slayton exits the system. The only thing that will change is that Slayton will no longer contribute to the fixed costs of those plants.

177. The Company presented evidence the lost revenue factor is intended to avoid these cost impacts on other customers.[197]

178. The Company's analysis is consistent with the Department's. Department witness Ngo testified that fixed costs "such as most production plants" are "not immediately avoidable and should not be treated as avoided" in the absence of specific evidence.[198]

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[195] Ex. Xcel Energy-204, Peterson Direct at 24:16-19.
[196] Ex. Xcel Energy-211, Sun Direct at 6:4-5.
[197] Xcel Energy Initial Brief at 48-49; Ex. Xcel Energy-202, Krug Direct at 8:2-15. *See also In the Matter of the Application of the City of Olivia to Extend its Municipal Electric Service Area into an Area Served by Renville-Sibley Cooperative Power Association*, Docket No. E288, 136/SA-85-93, FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER SETTING COMPENSATION FOR SERVICE EXTENSION at 8, 13 (June 27, 1986) (adopting the ALJ's recommendation that "the remaining members of the [utility] should not experience a rate increase as a result of this acquisition proceeding" and establishing loss of revenue "[t]o prevent a rate increase for those [remaining] member-consumers as a result of the acquisition").
[198] Ex. DOC-301, Ngo Rebuttal at 10:3-6.

179. Accordingly, under this reasoning, fixed production costs must be treated as unavoidable and included in the lost revenue calculation.

1) Slayton's Exit will Not Reduce Fixed Production Costs in the Future

180. Slayton presents two arguments for its position that fixed production costs are fully avoidable. Slayton's first argument is that Xcel Energy can make use of its capacity to serve other customers, avoiding the need to obtain more capacity in the future.[199]

181. Slayton's assessment is incorrect for several reasons. First, the "revenues" at issue in this case are related to the Company's current revenue requirement. The baseline starting point for the Company's lost revenue calculation is the current revenue requirement based on the generation units that exist today. Even if City witness Berg were correct and future procurements could be less, that would not change any of the numbers in the lost revenue requirement because they are based on the current revenue requirement.[200] City witness Berg admitted during the evidentiary hearing that "you can't change history." [201] Here, the fixed production investments the Company has already made are history, and cannot be changed

182. Second, Slayton's capacity share is not large enough to impact the size, type, or timing of future generation additions.[202] Company witness Dr. Sun provided testimony

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[199] Ex. Slayton-103, Berg Direct at 26:11-20.
[200] Ex. Xcel Energy-208, Peterson Surrebuttal at 17:11-19.
[201] Xcel Energy Initial Brief at 50; Tr. Evid. Hearing at 44-45.
[202] Ex. Xcel Energy-206, Peterson Rebuttal at 112:5-16.

that evidenced that Slayton's exit will not change the cost of the current fixed production costs, or the future fixed production costs.[203]

2) MISO Markets Will Not Produce Revenue to Offset Slayton's Share of Fixed Production Costs

183. Slayton's second argument is that Xcel Energy should be able to sell Slayton's share of excess power plant capacity into the wholesale market to generate offsetting revenue.[204] Slayton's position is not supported by the record.

184. Company witness Dr. Sun performed an analysis and concluded that selling Slayton's capacity into the Midcontinent Independent System Operator (MISO) market would not reliably offset the amount that Slayton customers contribute towards fixed production costs.

185. Slayton argues that the MISO market will produce additional revenue in two ways after Slayton's exit, but neither will offset the lost revenues.

i) Increased Revenue from Selling Slayton's Share of Capacity Will Not Offset Increased Costs for Xcel Energy's Other Customers.

186. First, Slayton argues that the Company will generate increased PRA revenue due to the lower obligation to serve resulting from Slayton's departure. City witness Berg calculated that the Company could receive $217 per MW-day from the MISO capacity

[203] Xcel Energy Initial Brief at 51; Ex. Xcel Energy-213, Sun Surrebuttal at 5:4-19.
[204] Ex. Slayton-103, Berg Direct at 27:3-19.

auction,[205] which would result in $316,820 in new revenue from selling Slayton's 4 MW of capacity for an entire year.[206]

187. The City's argument is not correct because even if City witness Berg were correct, it does not offset the lost revenues related to fixed production costs, which are approximately $700,000.[207] This analysis does not support the City's argument that fixed production costs should be treated as fully avoidable.

188. The City's position is also flawed because it is based on a series of unreasonable assumptions. City witness Berg assumed that the MISO market prices would be $666.50/MW-day in the summer and $217/MW-day annually.[208] The record demonstrates that these prices are incorrect because of a MISO error. The correct price would have been $459.10/MW-day, 30 percent lower than the figures City witness Berg relies on.[209]

189. Even the corrected value is the highest MISO market price ever recorded.[210] The summer clearing price in the 2023-2024 planning year was $30.00/MW-day, and just $10.00/MW-day in the 2022-2023 planning year, which amounts to a fraction of the City's assumption.[211]

190. The City has produced no evidence to justify its assumption that the MISO market will have clearing prices that are higher than the highest price ever recorded, in

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[205] The Company explained that it would be unreasonable to assume any revenue from the MISO energy markets, Ex. Xcel Energy-210, Sun Direct at 9:9-10:3.
[206] Ex. Slayton-105, Berg Rebuttal at 41:24-26.
[207] Ex. Xcel Energy-210, Sun Direct at 8:18-20.
[208] Ex. Slayton-105, Berg Rebuttal at 40:20-26, 41:24-26.
[209] Ex. Xcel Energy-212, Sun Surrebuttal at 14:10-18.
[210] *Id.* at 14:21-15:2.
[211] *Id.* at 12:17-18.

every season, in every year for the entirety of the lost revenue time period, which Slayton's consultant acknowledged during the evidentiary hearing.[212]

191. The City's analysis also assumes that Slayton's "share" of capacity would be 4 MW in every year in the future, because that is its highest peak load historically.[213] During the evidentiary hearing, though, Slayton witness Berg admitted that there have been many seasons where Slayton's usage was lower than 4 MW, and, in fact that Slayton's usage had never had a peak of 4 MW during the winter, spring, or summer, in any year.[214] Slayton's assumption is that MW can be sold every day all year is unsupported by record evidence.

192. The Company combined actual billing data from Slayton with actual MISO clearing prices to identify how much revenue could have been obtained in prior years. This analysis is presented in Trade Secret Schedule 2 of Company witness Dr. Sun's Surrebuttal Testimony. As explained by Dr. Sun, "the amount of revenue would not have offset [the lost revenues] in any year. In most years, the amount of revenue would have been only a few thousand dollars, and it would have resulted in significant revenue only a few times."[215] Dr. Sun also explained that there is no way to predict what the MISO auction clearing price will be in any future year, which means there is no reliable or accurate basis to assume the amount of revenues that could be received in any given year in the future.[216]

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[212] Xcel Energy Initial Brief at 53; Tr. Evid. Hearing at 72:20-24 (Berg).
[213] Tr. Evid. Hearing at 73:1-4 (Berg).
[214] Tr. Evid. Hearing at 73:12-24 (Berg).
[215] Ex. Xcel Energy-212, Sun Surrebuttal at 13:12-14:1; Ex. Xcel Energy-213, Sun Trade Secret Surrebuttal at 13:12-14:1, Schedule 2.
[216] Ex. Xcel Energy-212, Sun Surrebuttal at 15:9-12.

193. Further, the foregoing analysis assumes, without basis, that Slayton's capacity clears the market. As explained by Company witness Dr. Sun, bids offered higher than the clearing price of the MISO auction do not clear, are not selected, and the Company does not receive revenue for these uncleared resources.[217]

194. The Company produced evidence showing that Xcel Energy's capacity resources bid into the MISO auction do not always clear.[218] That means that marginal capacity, which is what Slayton's 4 MW would represent, has no guarantee of generating any revenue at all, because it may not clear the auction.

195. Accordingly, the Company has produced substantial evidence demonstrating that it is highly unlikely that increased auction revenues would offset the lost fixed production revenue.

ii) Increased Auction Revenues Will Not Offset Increased Costs for Xcel Energy's Other Customers

196. Slayton also argues that the Company could generate new revenue by re-allocating Slayton's current share of net auction revenue to its other customers.[219] In other words, Slayton argues that other customers will receive credit for slightly more revenue from MISO auctions after Slayton leaves. The City's suggestion is not supported by the evidence or analysis in the record.

[217] *Id.* at 11:15-23.
[218] Ex. Xcel Energy-211, Sun Trade Secret Direct, Schedule 1.
[219] Ex. Slayton-105, Berg Direct at 41.

197. The Company disagrees with the City's approach, and Company witness Dr. Sun performed an analysis to evaluate whether this revenue could offset the lost fixed production revenues from Slayton. The potential historical revenue is displayed in the column Share of Net Revenue in Schedule 1 to Dr. Sun's Trade Secret Direct Testimony, and it is far less than the approximately $700,000 in fixed production costs in every year. Dr. Sun concluded that, "These estimated net capacity auction revenues are negligible and do not appropriately compensate the Company for the lost retail sales revenues allocated to recovering fixed production costs."[220]

198. Dr. Sun also evaluated whether it would be possible for this revenue to offset fixed production costs if capacity auction prices increased dramatically in the future. The maximum possible price for the MISO capacity auction is four times the Cost of New Entry (CONE), which would be $1,399.67/MW-day in the 2025-2026 planning year, assuming the price cap is reached in every single season of the year.[221] Dr. Sun's analysis demonstrated that in order for these MISO auction revenues to offset fixed production costs, the auction clearing prices would need to be 1000 percent higher than the maximum legal price.[222]

199. Slayton produced no evidence sufficient to rebut Dr. Sun's analysis on either point related to MISO market revenue.

200. Based on this evidence and analysis, Xcel Energy has demonstrated that the MISO wholesale market will not offset the fixed production costs. Accordingly, the record

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[220] Ex. Xcel Energy-210, Sun Direct at 10:22-25.
[221] Ex. Xcel Energy-210, Sun Direct at 12:15-22.
[222] *Id.*

demonstrates that fixed production costs are not avoidable, and they should be included in the lost revenue calculation.

3) Xcel Energy Documents

201. Slayton introduced several PowerPoint presentations into evidence and argued that they demonstrate that Xcel Energy has changed its position on whether certain costs are avoidable.[223] In particular, Slayton pointed to transmission costs and fixed production costs. The Company has now agreed that transmission costs are avoidable, but the parties continue to dispute fixed production costs.

202. The documents, which are dated from 2019 to 2025, provide an overview regarding just compensation proceedings. They specifically indicate that the issue is not a major one for Xcel Energy.[224]

203. Slayton argues that the documents indicate that Xcel Energy has changed its position on several issues in the past, and should be taken as an indication that its analysis in this case is less credible.[225]

204. Xcel Energy argued that the documents were of limited relevance. First, the Company noted that the first set of documents had been part of communications with parties that are not involved in this proceeding and about different possible transactions.[226] Second, the Company explained that the most recent document was related to settlement negotiations with Slayton prior to the beginning of this contested case.[227]

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[223] Ex. Slayton-115, Fritsch Rebuttal.
[224] *Id.* at Attachments A-C.
[225] Slayton Initial Brief at 28-29.
[226] Xcel Energy Reply Brief at Section IV.C.
[227] *Id.*

205. Xcel Energy also explained that once this case resulted in litigation and needed to be supported by sworn testimony, it needed to re-evaluate all steps of the lost revenue calculation. That process resulted in some changes compared to the documents used in the past. The Company argued that the lost revenue calculation in this case needs to be based on the evidence in the record, and not what it said in communications with non-parties or in settlement communications with Slayton.[228] Xcel Energy noted that Minnesota Rule of Evidence 408 is an indication that settlement communications should be given little weight.

206. Xcel Energy's position is reasonable. The documents, which represent communications to non-parties in other contexts or settlement communications with Slayton, should be given little weight. Taking communications of this nature as credible evidence would discourage settlement in the future, and the decision in this case must be made based on the arguments, evidence, and analysis in this record, not on what Xcel Energy said and did in other contexts.

d) <u>Variable Production Costs</u>

207. Variable production costs include fuel, purchased power, sales and economic development, administrative and general expenses, conservation improvement program expenses, amortizations, payroll taxes, non-plant related deferred income taxes, and other expenses.[229] Variable production costs make up around 45 percent of the total revenues.[230]

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[228] *Id.*
[229] Ex. Xcel Energy-204, Peterson Direct at 21:11-18.
[230] Ex. Xcel Energy-208, Peterson Surrebuttal, Schedule 1 at 6.

208. Fuel costs will be avoided and the Company will burn slightly less fuel to produce electricity after Slayton exits the system. As such, the Company has treated the fuel costs as avoidable.[231] Fuel makes up approximately 36.4 percent of variable production costs, so 36.4 percent of those costs are treated as avoidable.[232]

209. Slayton argued that three additional cost items should be treated as avoidable: Conservation Improvement Program (CIP) expense, purchased power costs, and costs that the City referred to as "energy allocator" costs.[233]

210. After reviewing the City's testimony, the Company re-evaluated each of these cost items and concluded that a portion of CIP expense would be avoidable. As explained by Company witness Peterson, the CIP program includes rebates to encourage customers to conserve energy.[234] The Company determined that it had provided an average of $18,700 annually in CIP rebates to customers in Slayton from 2016 to 2025.[235]

211. If Slayton exits the system, those rebates would no longer be paid, so the Company determined they should be treated as avoidable. The Company correctly concluded that Slayton's exit from the system would not otherwise alter CIP program design, so the remaining CIP costs are not avoidable.[236]

212. Slayton's other arguments are unsupported by the record. Purchased power costs refer to the costs of contracts by which Xcel Energy buys energy and capacity from

[231] Ex. Xcel Energy-204, Peterson Direct at 21:11-18.
[232] Ex. Xcel Energy-208, Peterson Surrebuttal, Schedule 1 at 6.
[233] Ex. Slayton-105, Berg Rebuttal at 11:25-13:7.
[234] Ex. Xcel Energy-208, Peterson Surrebuttal at 21:1-8.
[235] *Id.* at 21:12-22:2.
[236] *Id.*

independent power generators, referred to as Power Purchase Agreements (PPAs).[237] PPAs are legal contracts. In general, the Company is required to purchase, and pay for, capacity from PPAs in every season, for the duration of the PPA contract.[238] Similarly, the Company is required to purchase energy produced by the generator for the duration of the PPA contract.[239] MISO, not the Company, determines when the generators run.[240]

213. Despite its arguments, Slayton has not identified any basis that would permit Xcel Energy to breach its PPA contracts. City witness Berg admitted during the evidentiary hearing that he was aware that Xcel Energy would not get the right to break its PPA contracts because Slayton leaves the system.[241] City witness Berg provided testimony suggesting that the Company could purchase less power than required by the PPA contracts after Slayton exist the system, but stated that he had not reviewed the contracts and was not familiar with their terms.[242]

214. Department witness Ngo also testified during the hearing that Xcel Energy's PPAs are legally binding contracts.[243]

215. Slayton has not identified any legal basis by which the Company could be excused from its contractual obligations. Because Xcel Energy is obligated to pay for the costs under its PPAs, and cannot change the PPAs because Slayton is leaving, it is reasonable to conclude that costs related to PPAs are not avoidable.

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[237] Ex. Xcel Energy-208, Peterson Surrebuttal at 19:22-20:24.
[238] *Id.*
[239] *Id.*
[240] *Id.*
[241] Tr. Evid. Hearing at 45:7-46:6 (Berg).
[242] Tr. Evid. Hearing at 76:9-80:6 (Berg).
[243] Tr. Evid. Hearing at 200:7-18 (Ngo).

216. Further, the City's argument for "energy allocator" costs is unsupported. The City has not identified what specific costs it thinks would be reduced, how that would be accomplished, or how much money would be saved. Instead, the City presents a blanket argument that costs allocated using the E8760 allocator in the CCOSS should be treated as avoidable.[244]

217. Costs in a CCOSS are allocated using an energy allocator when they vary based on the amount of energy consumed, and City witness Berg argues that these costs are avoidable based only on this allocation.[245]

218. The Commission explicitly rejected this argument in the past when deciding cases under Minn. Stat. § 216B.44.[246]

219. The Commission has also explained that "the issue is not how the [utility] allocates and reflects [costs] in its rate schedule, but how the loss of actual customers to the City will actually affect its [costs]."[247]

220. Accordingly, for purposes of calculating lost revenue it does not matter how costs are allocated in the CCOSS, and the analysis should focus on whether costs will actually be reduced. The record evidence in this matter and the Commission's prior

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[244] Ex. Slayton-105, Berg Rebuttal at 12:26-13:7.
[245] *Id.*
[246] Xcel Energy Initial Brief at 59 (citing *In the Matter of the Application of the Grand Rapids Public Utilities Commission to Extend its Assigned Service Area into the Area Presently Served by Lake Country Power*, Docket No. E243, 106/SA-03-896, ORDER DETERMINING COMPENSATION at 15 (Sept. 29, 2005), *affirmed by* 731 N.W.2d 866 (Minn. Ct. App. 2007); *In the Matter of the Application of the City of Redwood Falls to Extend its Assigned Service Area into the Area Presently Served by Redwood Electric Cooperative*, Docket No. E135, 298/SA-05-1274, ORDER DETERMINING COMPENSATION at 13 (June 27, 2007)).
[247] *In the Matter of the Application of the City of Redwood Falls to Extend its Assigned Service Area into the Area Presently Served by Redwood Electric Cooperative*, Docket No. E135, 298/SA-05-1274, ORDER DETERMINING COMPENSATION at 12 (June 27, 2007).

rejection of Berg's argument makes clear that costs will not be treated as avoidable on the basis of allocators alone.

221. The City has failed to demonstrate by a preponderance of the evidence that variable production costs, other than those related to fuel and CIP rebates, are avoidable. Accordingly, the record demonstrates that those costs are not avoidable, and they should be included in just compensation.

e) Distribution Costs

222. Distribution costs include the costs of distribution lines, poles, substations, related equipment, and the cost to maintain them.[248] Distribution costs make up around 9 percent of the total revenues.[249] A portion of the distribution cost is avoidable because the distribution system will be slightly smaller after Slayton exits the system.

223. Company witness Peterson removed the costs of the distribution system which Slayton will purchase, and the Slayton West substation (SLW), discussed below, from overall Distribution Plant (separate from depreciation).[250] These costs are treated as avoidable.

224. Slayton argues that the entire distribution system should be treated as avoidable, but there is no logical or evidentiary basis for this claim. According to the City's consultants, the entire cost of the distribution system can be avoided because Slayton is purchasing the distribution system in Slayton.[251]

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[248] Ex. Xcel Energy-204, Peterson Direct at 23:3-8.
[249] Ex. Xcel Energy-208, Peterson Surrebuttal, Schedule 1 at 6.
[250] *Id.* at 23. *See also* Ex. Xcel Energy-206, Peterson Rebuttal at 28-29.
[251] Ex. Slayton-105, Berg Rebuttal at 16:8-17:2.

225. The revenues currently paid by customers in Slayton are not directly related to the distribution system in Slayton. They represent Slayton's share of the shared cost of the statewide distribution system. This includes distribution poles, lines, and substations in every community the Company serves from Slayton to St. Paul and beyond. The costs of these investments and the expense to maintain them make up the distribution revenue requirement. All customers pay a share of these costs, including the customers in Slayton.[252] The Commission has acknowledged that rates are set to recover costs, but neither individual rates nor individual rate components are set to recover each customer's precise cost of service. Rather, they are set to recover the utility's total, system-wide cost of service on a fair and equitable basis.[253]

226. The record indicated that the City knows this is the case. City witness Mitchell testified that "[a] customer in Minneapolis would pay a portion of the cost of lines serving Slayton and a customer in Slayton would pay a portion of the cost of lines serving Minneapolis."[254]

227. If buying the distribution system meant that no distribution lost revenues could be recovered, then the lost revenue factor would have no purpose or application for a distribution-only utility such as a cooperative.[255] However, the Commission has approved lost revenues for several distribution-only cooperatives in the past.[256]

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[252] Ex. Xcel Energy-206, Peterson Rebuttal at 28:13-20.

[253] Xcel Energy Initial Brief at 61-62. *See also* Ex. Xcel Energy-206, Peterson Rebuttal at 28:13-20; *In the Matter of the Application of the City of Redwood Falls to Extend its Assigned Service Area into the Area Presently Served by Redwood Electric Cooperative*, Docket No. E135, 298/SA-05-1274, ORDER DETERMINING COMPENSATION at 12 (June 27, 2007).

[254] Ex. Slayton-116, Mitchell Rebuttal at 10:14-16.

[255] *See* Minn. Stat. § 645.17(2) (providing that "the legislature intends the entire statute to be effective and certain").

[256] Ex. Xcel Energy-206, Peterson Rebuttal at 3-4, Table 1.

228. In *City of Olivia*, the Commission explicitly determined that the first just compensation factor, the value of property, is distinct from the lost revenue factor. The Commission rejected the argument that the lost revenue factor was duplicative of the value of property factor and explained:

> [T]he argument that the loss of revenue factor duplicates original cost, less depreciation, does not recognize the severance damage to the utility. . . . That impact is clear and substantial. The Commission concludes that the loss of revenue factor is geared precisely for consideration of that effect. If the Legislature would have meant to provide compensation for physical facilities only, it would not have included the loss of revenue factor. Instead, four factors are laid out, each of which must be given consideration of its own, under any fair reading of the language.[257]

229. The City's argument that there are no distribution lost revenues because the City is buying the distribution system is the same type of argument the Commission rejected in *City of Olivia*.

230. If Slayton leaves the system, the cost of the Company's distribution system will be largely the same, except that customers in Slayton will no longer contribute towards it. The only material change is that the distribution system will be slightly smaller because the poles and lines in Slayton will no longer be part of the system. The Company has accounted for that change in its methodology by removing the costs for the Slayton distribution system.[258] Other than that, there will be no reduction in the cost of the distribution system, and the primary change is that the revenues Slayton is currently paying towards the shared cost will be lost.

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[257] *In the Matter of the Application of the City of Olivia to Extend its Municipal Electric Service Area into an Area Served by Renville-Sibley Cooperative Power Association*, Docket No. E-288, 136/SA-85-93, FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER SETTING COMPENSATION FOR SERVICE EXTENSION at 10 (June 27, 1986).
[258] Ex. Xcel Energy-204, Peterson Direct at 23:19-24.

231. Slayton has not identified any other cost reductions or new revenues streams related to distribution costs, and did not meet its burden of proof.

232. The record demonstrates that distribution costs should be included in just compensation.

f) <u>Customer Costs</u>

233. Customer costs include costs related to service drops, meters, meter reading, customer service, back-office support, and portions of distribution lines and conductors.[259] Customer costs represent around 10 percent of revenue requirements.[260]

234. Similar to the distribution costs discussed above, the Company determined that customer costs related to meters and service drops would be avoided.[261] These costs represent 27.1 percent of the customer costs, which are treated as avoided.[262]

235. The other costs are not avoidable. The additional distribution costs in this category are not avoidable for the same reasons that the other distribution costs are not avoidable.[263] For the administrative costs, the Company does not expect to reduce budgets for customer service or back-office support. The Company does not expect to lay off any employees, reduce its software costs, or reduce the level of service it provides to customers. Company witness Peterson explained that the Company would continue to incur the same costs, and they would not be reduced because of Slayton's exit.[264]

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[259] Ex. Xcel Energy-204, Peterson Direct at 22:9-11.
[260] Ex. Xcel Energy-208, Peterson Surrebuttal, Schedule 1 at 6.
[261] Ex. Xcel Energy-204, Peterson Direct at 22:14-16.
[262] *Id.* at 22:20-27.
[263] There are distribution costs in the customer cost category because in the Class Cost of Service Study, distribution costs are separated into a customer component and a demand component. Together, they make up the total distribution system costs.
[264] Ex. Xcel Energy-204, Peterson Direct at 22:20-27.

236. Slayton states that customer costs should be treated as fully avoidable because "it can easily adjust its operations to adjust customer systems for the loss of Slayton customers."[265] But Slayton did not to identify any adjustments it thinks the Company should make, or what costs would be reduced if the Company did so.[266] The City's argument it not supported by any evidence, and is rejected.

237. The Company's method carefully evaluated customer costs and identified the costs that can be avoided. For the remaining costs, they must be treated as unavoidable and included in the lost revenue calculation.

g) Slayton's Adjustments

238. Slayton suggests the possibility for two additional adjustments related to the lost revenue calculation. They have not be included for two reasons. First, even though Slayton provided extensive testimony about these adjustments, Slayton confirmed that they were not incorporated into its recommendation.[267] For that reason, these adjustments are not appropriately included in the record and will not be considered.

239. Slayton's adjustments are also excluded because they are unsupported by record evidence as described below.

1) Adjustment for a Dedicated Employee

240. Slayton's first calculation is that there should be a downward adjustment to lost revenues because Slayton believes that there is an employee "dedicated" to dealing

[265] Ex. Slayton-105, Berg Rebuttal at 18:3-4.
[266] Tr. Evid. Hearing at 65 (Berg).
[267] Tr. Evid. Hearing at 62 (Berg) ("A: But I think it's also fair to point out that neither the density issue nor the employee issue actually are utilized in my recommendation on loss of revenue.").

with issues in Slayton, who will no longer be needed after Slayton exits the system.[268] Slayton's position is not supported by the record.

241. As explained by Company witness Krug, the Company does not have an employee "dedicated" to Slayton.[269] The employee the City is referring to is the District Representative that lives is Slayton[270] but is responsible for approximately 708 square miles of Xcel Energy's service territory, including Slayton and other nearby communities.[271] Company witness Krug confirmed that if Slayton exits the system, this position would still be needed, and that if this employee retires, the Company intends to re-hire for that position.[272] In short, there is no basis for any adjustment because there will be no reduction in costs related to this employee.

242. Company witness Krug also noted that Slayton's calculation was inexplicably high. Slayton recommended that the entire lost revenue amount should be 4.2 mills per year, but that the loss of a single employee could cause a downward adjustment of 5.6 mills per year. As noted by Company witness Krug, "[t]he argument that the potential cost savings of a single employee could be greater than the lost revenues of an entire community is not reasonable."[273]

243. The City's analysis and overall recommendations on lost revenue are unreasonable and unsupported by record evidence.

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[268] Ex. Slayton-103, Berg Direct at 35:3-19.
[269] Ex. Xcel Energy-203, Krug Rebuttal at 3:7-19.
[270] *Id.*
[271] *Id.* at 3:22-4:13.
[272] *Id.*
[273] Ex. Xcel Energy-203, Krug Rebuttal at 2:14-16.

2) Adjustment for Load Density

244. Slayton's second calculation is a downward adjustment because the City believes that Slayton costs less to serve than some other areas of the Company's service territory.

245. The City relies predominantly on the idea that "[t]he expense of owning and operating a distribution system is generally measured on a dollars per mile of line basis."[274] The City did not include any other necessary components of distribution service in its load density analysis.[275]

246. The Company, which is responsible for managing hundreds of miles of distribution system, does not use that type dollars per mile methodology in its decision-making.[276] Further, this type of evidence is extremely limited because it focuses only on distribution lines and does not account for other necessary components of distribution service, such as transformers, poles, substations, and many other costs.

247. The Company further states that measuring load density in sales per mile of line does not actually provide any useful information about how much it costs to provide service in Slayton. The Company notes that the amount of kWh consumed by people in Slayton does not directly correlate with how much it costs to provide that service; rather the kWh consumption only establishes how much energy people use.

248. The City's analysis is based entirely on the assumption that there is a direct relationship between the amount of sales in Slayton and the cost of providing service, but

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[274] Ex. Slayton-103, Berg Direct at 34:2-3.
[275] Tr. Evid. Hearing at 58-59 (Berg).
[276] Ex. Xcel Energy-206, Peterson Rebuttal at 33:1-14.

there is no evidence in the record to support that assumption. During the evidentiary hearing, City witness Berg stated that he did not have any citations to support his assumption that sales per mile of line were directly related to the cost of providing service in Slayton.[277] In order to analyze whether Slayton costs more or less to serve than the rest of the system, it would be necessary to use actual cost data, but City witness Berg also stated that his analysis was not based on any actual data.[278]

249. As detailed in Xcel Energy's Initial Brief, City witness Berg's analysis of load density contains calculation errors concerning three phase lines and corresponding miles of conductor that renders his comparisons invalid.[279]

250. City witness Berg failed to account for different types of distribution line, and did not evaluate which types of lines are used in Slayton compared to the rest of the system.[280] During the evidentiary hearing, City witness Berg admitted that there are different types of distribution line; that some cost more while others cost less; and that he had not analyzed the cost of the lines in Slayton compared to the rest of the system.[281]

251. City witness Berg also stated the cost to construct distribution lines would be different in different areas; that lines constructed along county highways or rural areas might cost less; and that his analysis did not compare the cost to construct the lines in Slayton to the cost in the rest of the system.[282]

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[277] Tr. Evid. Hearing at 50-52 (Berg).
[278] Tr. Evid. Hearing at 49:19-59:10 (Berg).
[279] Xcel Energy Initial Brief at 68-69 (citing Ex. Slayton-103, Berg Direct). The City did not label the attachments to the Berg testimony, but Information Request No. 19 can be found on PDF page 151.
[280] Xcel Energy Initial Brief at 69.
[281] Tr. Evid. Hearing at 57-58 (Berg).
[282] Tr. Evid. Hearing at 58 (Berg).

252. Based on the evidence presented, the City's analysis related to load density is not reasonable and should not be adopted.

h) <u>Adjustments for Method of Lost Revenue Compensation</u>

253. The Company states that just compensation (including lost revenues) should be paid as a lump sum. If a lump sum is used, there will be timing differences between the time the revenue would have been received and when it is paid and the lost revenue amount should be adjusted using a discount rate.[283]

254. The Company states that the discount rate is used to reflect that future dollars do not have the same value as current dollars, and the discount rate is used to equalize dollars from different time periods.

255. In its written testimony, the City did not raise any concerns about the discount rate proposed by the Company. In its Initial Brief, the City states that Xcel's weighted average cost of capital is a low interest rate it enjoys as a large stable utility and that it is not consistent with the average market returns, which is the purpose of a discount rate in adjusting for the time value of money.[284] Slayton also notes that Xcel Energy's authorized rate of return on equity in Minnesota is currently 9.25%.[285]

256. In its Initial Brief, the Department does not address the discount rate.

[283] Ex. Xcel Energy-204, Peterson Direct at 27:12-28:16.
[284] Slayton Initial Brief at 27.
[285] Slayton Initial Brief at 27.

257. The City's position is not supported by the record. If a lump sum payment is made, as recommended by the Company, a discount rate of 6.51 percent should be applied equal to the weighted average cost of capital approved in the Company's last rate case.[286]

4. Conclusion on Lost Revenue

258. This is the first Commission proceeding to calculate lost revenue for a community the size of Slayton of more than 1,000 customers, taking into account that Xcel Energy is a vertically integrated utility that has been providing transmission, generation, and distribution services to Slayton customers for over 70 years, among other factors.

259. Xcel Energy is subject to cost of service ratemaking in Minnesota.[287] In general, utility rates are designed so that the revenue being recovered is equal to the cost of providing service, including a reasonable return (referred to as the revenue requirement).[288] City witness Berg acknowledged that this is how utility ratemaking works in this context.[289]

260. Customers in Slayton are currently contributing approximately $3 million in revenue to the revenue requirement each year.[290] If Slayton exits the system, the Company will no longer receive this $3 million in revenue. The Company would then need to increase rates for other customers to recover an additional $3 million in revenue, unless Slayton's exit reduces the shared costs of the system.

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[286] Ex. Xcel Energy-204, Peterson Direct at 27:12-28:16.
[287] Minn. Stat. § 216B.16.
[288] *Id.*
[289] Tr. Evid. Hearing at 74-76 (Berg).
[290] Ex. Xcel Energy-204, Peterson Direct at 20:1-4.

261. Xcel Energy concluded that approximately 30 percent of the costs can be avoided, while the other 70 percent cannot and must be treated as lost revenue. The Company's analysis demonstrates that over the next twenty years the Company will suffer $64 million in lost revenues if Slayton exits the system.[291] If these lost revenues are not recovered from Slayton, they will cause a rate increase for other customers.

262. The Company's revenue methodology is supported by reasonable analysis, assumptions supported by evidence, and reliable data. The Company considered Slayton's recommendations, and adopted certain recommendations, including changing its position on transmission costs, reducing the lump sum lost revenue payment by more than $6 million.[292]

263. Slayton's arguments are not supported by evidence. The City's argument that the Company will be able to avoid 97.8 percent of the lost revenues is unreasonable. The City did not employ a rigorous analysis in setting its valuation for lost revenue. The City's analysis does not meet the City's burden to prove by a preponderance of the evidence that its recommendation is reasonable.

264. In contrast, the Company has provided a clearly explained, transparent lost revenue model supported by the testimony of experienced, qualified experts. That model demonstrates that around 70% of revenues are not avoidable and must be included in the lost revenue calculation, which results in lost revenues of approximately $2 million in the first year – an amount that both intuitively makes sense considering Slayton customers pay

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[291] Ex. Xcel Energy-208, Peterson Surrebuttal, Schedule 1 at 1.
[292] *Compare* Ex. Xcel Energy-204, Peterson Direct, Schedule 3 at 1 *with* Ex. Xcel Energy-208, Peterson Surrebuttal, Schedule 1 at 1.

approximately $3 million in revenue per year, and which is supported by substantial evidence on the record.

265. Over the 20 year time period and accounting for growth in customers, customer usage, and rates, that results in a total lost revenue amount of approximately $64.4 million.[293] Converted to a lump sum payment, as is consistent with Minnesota law, the lost revenues amount is $34.7 million.[294]

266. Accordingly, for the reasons discussed herein, Xcel Energy's lost revenues methodology is more appropriate and the Administrative Law Judge recommends calculation of lost revenues based on the methodology recommended by the Company.

C. Integration Expenses

267. The third factor to be considered in determining just compensation is "expenses resulting from integration of facilities."

268. The Company identified several types of integration expenses, including (1) meter integration expenses; (2) continued service integration expenses; (3) customer distributed energy resource integration expenses; (4) engineering study and system upgrade integration expenses; and (5) integration expenses related to interconnection.

269. The City does not dispute that Xcel Energy may incur limited, incremental integration costs directly attributable to the acquisition, and states that such costs should be specific, documented, and not duplicative of amounts already recovered elsewhere.[295]

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[293] Ex. Xcel Energy-208, Peterson Surrebuttal, Schedule 1 at 1.
[294] *Id.*
[295] Slayton Initial Brief at 32.

270. The Department agreed that integration expenses should be included when they are supported by record evidence. In particular, Department witness Ngo testified that, "[i]n this proceeding, Xcel should be compensated for incremental, Slayton-specific integration expenses, such as removal or relocation of equipment, necessary for system reconfiguration, and related engineering – provided these costs are clearly caused by the transfer, reasonably estimated, and not double-counted in net plant or loss-of-revenue calculations."

271. The Company produced substantial evidence to demonstrate that the identified integration costs should be included in just compensation.

1. Meter Integration Expenses

272. Every customer in Slayton has an electric meter installed at their premises and the evidence indicates that Slayton does not intend to purchase the Company's meters.[296] The Company will therefore need to uninstall the meters.

273. Certain customers in Slayton also have Company-owned equipment installed on their air conditioners as part of Xcel Energy's Saver's Switch program. Through this program, the customer agrees to allow the Company to cycle their air conditioner at certain times and in return the customer receives a rate discount.[297] The Company has identified 494 customers in Slayton that have a Saver's Switch installed. This equipment will also need to be removed if Slayton exits the system.[298] The costs of removing meters and Saver's Switches are integration expenses that must be included in just compensation.

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[296] Ex. Xcel Energy-204, Peterson Direct at 32:15-17, Schedule 4.
[297] Ex. Xcel Energy-208, Peterson Surrebuttal at 33:4-9.
[298] Ex. Xcel Energy-208, Peterson Surrebuttal at 33:4-9.

274. When an electric meter is removed, customers cannot receive electricity. To avoid outages for customers, it will be necessary to (1) uninstall the Company's meter, and (2) immediately install a Slayton meter.[299] This switching process will require close coordination with the City to complete this work for every meter in Slayton without extensive impacts on customers. The Company committed to work collaboratively with Slayton to complete the work at the lowest reasonable cost.[300]

275. The Company estimates that it may cost around $140,000 to complete the required work.[301]

276. Due to the preliminary and unknown scope of these switching costs, Slayton should pay just compensation based on the actual costs for removing the meters once those costs are known.

277. The City states that the integration expense should be reduced to "reflect the value of these meters to Xcel."[302] The City also states, without support, that the Company will be able to use the meters at other locations in its system.[303]

278. The City is required by law to pay for "expenses resulting from integration of facilities."[304] The Company has established that it will incur expenses to remove meters and Saver's Switches as a direct result of Slayton's decision to exit the system.[305] The fact

[299] Ex. Xcel Energy-204, Peterson Direct at 32:20-33:2.
[300] Xcel Energy Initial Brief at 74.
[301] Ex. Xcel Energy-204, Peterson Direct at 33:10-34:3. Reservicing is the process to prepare a used meter to be used again.
[302] Ex. Slayton-105, Berg Rebuttal at 30:7-8.
[303] Ex. Slayton-105, Berg Rebuttal at 30:8-9.
[304] Minn. Stat. § 216B.45.
[305] The Company will have to uninstall the meters because Slayton does not want to purchase them, not because the Company wants the meters or has any specific use for them. Ex. Xcel Energy-208, Peterson Surrebuttal at 32:19-24.

that the Company will continue to own the meters has no impact on the expense required to uninstall them.

279. Further, the fact that the Company will continue to own the meters is not relevant to just compensation. The Company already owns the meters.[306] They are already included in the Company's rate base, and the amount of meter-related rate base will not change after Slayton leaves the system.[307] As explained by Company witness Peterson, this integration expense could be largely avoided if the City elects to instead purchase the meters.[308]

280. Accordingly, for these reasons, actual costs of integration expenses related to uninstalling meters and Saver's Switches should be tracked and included in the Company's just compensation.

2. Continued Service Integration Expenses

281. Pursuant to Minn. Stat. § 216B.45, municipalities are permitted to purchase utility equipment located "in the municipality." While the vast majority of customers in the Slayton area are located inside City limits, there are some customers outside of the City. The customers located outside the City will continue to be customers of Xcel Energy.[309]

282. The Company provided a preliminary analysis that it will need to modify some facilities to ensure that it can continue to provide service to these customers after Slayton leaves.[310] These preliminary estimates indicate that the cost will be approximately

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[306] Ex. Xcel Energy-208, Peterson Surrebuttal at 32:19-20.
[307] Ex. Xcel Energy-208, Peterson Surrebuttal at 32:20-21.
[308] Ex. Xcel Energy-208, Peterson Surrebuttal at 32:23-24. The Company may still need to incur some costs to remove Saver's Switches.
[309] Ex. Xcel Energy-204, Peterson Direct at 34:7-11.
[310] Ex. Xcel Energy-204, Peterson Direct at 34:7-11.34:14-35:6.

$15,000.[311] Final estimates will not be known until the Company completes detailed engineering work.

283. The Company proposes that any expenses required to continue to provide service to Xcel Energy customers should be included in the just compensation amount, with final amounts to be determined at the time of the transfer.[312] The City's witness testified that this amount "does not appear unreasonable," and this issue appears to be resolved.[313]

284. Accordingly, any expenses required to continue to provide service to Xcel Energy customers will be included in the just compensation amount, with final amounts to be determined at the time of the transfer. The cost of doing that work will be caused by Slayton and must be included in just compensation.

3. Customer Distributed Energy Resources Integration Expenses

285. The Company also identified the possibility for integration expenses related to customers participating in distributed energy resource (DER) programs. The Company operates several DER programs, including the Solar*Rewards program for rooftop solar, and Solar*Rewards Community for community solar gardens (CSGs). These programs are only available to customers of Xcel Energy, which means that any customers in Slayton can no longer participate in these programs if Slayton exits the system.[314]

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[311] Ex. Xcel Energy-204, Peterson Direct at 34:14-35:6.
[312] Ex. Xcel Energy-204, Peterson Direct at 34:14-35:6.
[313] Ex. Slayton-105, Berg Rebuttal at 30:12-13.
[314] Ex. Xcel Energy-204, Peterson Direct at 36:5-38:25.

286. According to the record evidence, 221 of the 1,235 customer accounts in Slayton are CSG subscribers.[315] Typically, these customers have executed contracts with a CSG developer.[316] The customers provide payments to the CSG developer; the CSG produces energy which Xcel Energy purchases; and customers receive bill credits.[317]

287. If Slayton exits the system, the customers will still have a contract, and possibly contractual payments, with the CSG developer but will no longer receive bill credits from the Company.

288. Other customers in Slayton have invested in rooftop solar DER. Some of these customers likely relied on incentives from Xcel Energy programs in deciding to make their investment, but will no longer be able to receive the incentives.[318]

289. The Company may need to perform outreach and provide assistance and education to customers who will lose the benefit of the CSG bill credits and to customers who may have relied on incentives from Xcel Energy programs in making solar investment decisions.[319]

290. The City's exit could result in disputes between customers, CSG developers, and the Company. Outreach and dispute resolution could result in costs for the Company, which would be incurred only as a result of Slayton's decision to exit the system.

291. The Company also presented evidence about a potential impact to revenue stream due to loss of rights to Renewable Energy Credits (RECs). The Solar*Rewards

[315] Ex. Xcel Energy-204, Peterson Direct at 36:5-9.
[316] Ex. Xcel Energy-204, Peterson Direct at 36:13-17.
[317] Ex. Xcel Energy-204, Peterson Direct at 36:13-17.
[318] Ex. Xcel Energy-204, Peterson Direct at 39:3-8.
[319] Ex. Xcel Energy-204, Peterson Direct at 37:6-19.

program provided an up-front payment to customers in return for the rights to RECs for 20 years.[320] If participants in this program are no longer customers of Xcel Energy, it is unclear that the Company can continue to receive these RECs.[321] Slayton's exit from the system could deprive the Company of the financial benefit of these RECs.

292. The Department states that these expenses, if they arise, should not be included in just compensation for several reasons: (1) it will be self-evident to CSG subscribers that they are not eligible for bill credits;[322] (2) it is the responsibility of CSG developers, and not Xcel Energy or the Department, for dealing with problems related to subscribers;[323] and (3) the Company can include a line about CSG eligibility in its communications to customers at marginal cost.[324]

293. The Company countered that it is presently unknowable whether these plausible integration expenses will be low or if the Company will need to expend meaningful effort in assisting affected customers, and that these expenses should be included in just compensation through a tracker.

294. Accordingly, for the reasons stated above, the Company has produced evidence to support its request to track integration expenses related to customers that lose DER benefits, including costs of outreach, education, assistance, the value of lost RECs, and the cost of resolving any disputes, so that the resulting expenses can be included in just

[320] Ex. Xcel Energy-204, Peterson Direct at 39:10-16.
[321] Ex. Xcel Energy-204, Peterson Direct at 39:10-16.
[322] Ex. DOC-301, Teigland Surrebuttal at 6:2-13.
[323] Ex. DOC-301, Teigland Surrebuttal at 6:2-13.
[324] Ex. DOC-301, Teigland Surrebuttal at 6:2-13.

compensation. The cost of doing that work will be caused by Slayton and must be included in just compensation.

4. Engineering Studies and System Upgrade Integration Expenses

295. If Slayton exits the system, the Company will need to perform engineering studies to ensure that it can continue to provide safe and reliable service to other customers.[325] These studies may identify upgrades that are necessary to provide safe and reliable service. The Company states that both the cost for the studies and any necessary upgrades caused by Slayton's exit are integration expenses and must be included in just compensation.[326]

296. The Company presented evidence that electrical systems are balanced based on electricity load and electricity production,[327] and that balance is important in distribution substations.

297. Customers in Slayton receive service from the SLW substation. SLW is balanced based on the consumption of customers in the area and DER production interconnected to the substation. The DER production includes some rooftop solar, but is primarily related to CSGs.

298. At SLW, there are currently two CSGs with permission to operate, with a combined capacity of 2 MW; one CSG in design and construction with a capacity of 0.5 MW; one CSG in the facilities study phase with a capacity of 0.9 MW; and three CSGs on

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[325] The Company's analysis regarding the need for engineering studies and possible upgrades was originally combined with its analysis regarding DER impacts on customers. While the Company's analysis on DER issues originally led the Company to considering the need for engineering studies, the issues are separate and are treated separately in this Initial Brief to provide clarity on the Company's recommendations.
[326] Xcel Energy Initial Brief at 79.
[327] Ex. Xcel Energy-204, Peterson Direct at 38:2-3.

hold (waiting for the sequential engineering studies to be completed) with a combined capacity of approximately 14 MW.[328] 98.8 percent of the load served by SLW is from customers inside City limits.[329]

299. Based on the evidence presented, if Slayton exits the system, 98.8 percent of the load will no longer connect to SLW, and the SLW substation will have far more electricity production than load. This is likely to trigger engineering studies, namely either an Affected System Study (AFS) or an internal transmission study (ITS) for the reasons set forth in the evidence presented by the Company.[330]

300. Slayton stated that engineering studies and upgrades necessary to maintain system reliability should not be included in just compensation. Slayton's argument is supported entirely on the opinion of its witness, Mark S. Mitchell, a retired utility executive.[331]

301. Slayton witness Mitchell summarily concludes that Slayton's exit will not cause system stability issues and that an engineering study is not required.[332] Mr. Mitchell is not a licensed engineer and his opinion is not backed by any engineering analysis or studies.[333] Accordingly, there is not sufficient, reliable evidence in the record to support Slayton's position.

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[328] Ex. DOC-302, Teigland Surrebuttal at 8, Schedule PT-S-1.
[329] Ex. Xcel Energy-204, Peterson Direct at 43:14-21.
[330] Xcel Energy Initial Brief at 80-81.
[331] Ex. Slayton-116, Mitchell Rebuttal (Redacted) at 12:12-13:16.
[332] Ex. Slayton-116, Mitchell Rebuttal (Redacted) at 12:12-13:16.
[333] Tr. Evid. Hearing at 18:3-10 (Mitchell).

302. The Department's analysis is consistent with the Company's position. Department witness Ngo testified that "Xcel should be compensated for incremental, Slayton-specific integration expenses, such as . . . necessary system reconfiguration, and related engineering – provided these costs are clearly caused by the transfer, reasonably estimated, and not double-counted in net plant or loss-of-revenue calculations."[334]

303. The Company does not propose to estimate the costs, but to charge Slayton actual costs once they are known.

304. Finally, the Company's proposed costs are not included in loss-of-revenue calculations because they are new expenses not included in the current cost of service and, if paid for by Slayton, will not be assessed to system customers in future rate proceedings.

305. The Company has demonstrated that it is reasonable to perform engineering studies in order to determine whether system modifications will be needed to ensure safety and reliability. Engineering studies and related upgrades will only be needed if Slayton exits the system. Accordingly, the cost of doing that work, and the cost of any identified system modifications, will be caused by Slayton and must be included in just compensation.

306. If engineering studies are needed due to Slayton's decision to exit the system, the cost of the studies as an integration expense is properly included in just compensation. Further, if the studies identify that any system upgrades are needed to maintain transmission and distribution reliability, stability, power quality, or safety, those costs that

[334] Ex. DOC-301, Ngo Rebuttal at 12:7-11.

are caused by Slayton's decision to exit the system and must also be included in just compensation.

307. Accordingly, for the reasons discussed above, these presently unknowable actual costs are appropriately recoverable from Slayton. Actual costs for engineering studies will be known and assessed to Slayton when the studies are complete, and actual costs for system upgrades will be known when they are identified and will be assessed to Slayton after they have been installed.

5. MN DIP Impact Integration Expenses

308. The Company identified the possibility of integration expenses related to the Minnesota Distribution Energy Resources Interconnection Process (MN DIP).[335] The Company provided evidence, as discussed above, concerning several DER projects currently in the interconnection queue at SLW. Whether Slayton exits the system, and the time at which it does so, could impact the results of engineering studies for these DER applications.[336]

309. The Company stated that expenses and upgrades related to interconnection applications will be the responsibility of the applicants,[337] but the Company has not previously encountered a situation of significant loss of load and addition of new DERs at the same substation.[338]

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[335] As with the engineering studies discussed above, the Company initially incorporated the MN DIP Impact analysis into its evaluation of customer-facing DER issues. To improve clarity, they are discussed separately in this Initial Brief as they are related but distinct issues.
[336] Ex. Xcel Energy-206, Peterson Rebuttal at 40:21-41:16.
[337] Ex. Xcel Energy-206, Peterson Rebuttal at 40:21-41:2.
[338] Ex. Xcel Energy-206, Peterson Rebuttal at 39:17-20.

310. To the extent that there are any expenses caused by Slayton's exit that are not the responsibility of DER applicants under MN DIP, the Company requests that the expenses be tracked and included in just compensation.

311. The Department stated that Slayton should not be responsible for bearing costs related to DER in the interconnection queue which may be affected by Slayton's decision to exit the system,[339] and the City agreed, stating that the costs are speculative and may never come to pass.[340]

312. It is possible that there will be no costs related to the DERs currently in the queue that are the responsibility of Xcel Energy. If there are, though, and they are caused by Slayton's decision to exit, then the costs should be included in just compensation.

313. For the reasons discussed above, these presently unknowable actual costs are appropriately recoverable from Slayton. Any costs that are caused by Slayton's decision to exit the system should be included in just compensation as an integration expense.

D. Other Appropriate Factors to Consider

314. The fourth factor in Minn. Stat. § 216B.45 is "other appropriate factors." This factor permits the Commission to evaluate any other factors that are relevant to and should be included in just compensation.

315. Slayton did not identify any other factors that should be incorporated. The Company identified one: the stranded costs related to the SLW substation.

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[339] Ex. DOC-302, Teigland Surrebuttal at 2:13-14.
[340] Slayton Initial Brief at 42.

316. The Company provided uncontroverted evidence that customers living in Slayton are served from the SLW substation, which is located just outside city limits.[341] Previously, customers in Slayton received service from an older substation with a voltage of approximately 4 kV and a capacity of 5.25 MVA.[342] In 2006, the Company determined that more capacity and upgraded voltage were needed.[343] The old Slayton substation was retired, and SLW was constructed with a voltage of 13.8 kV and a transformer capacity of 14 MVA.[344] A transformer of 14 MVA was selected because a larger transformer was needed and that was the next standard size of equipment.[345]

317. The Company states that if Slayton exits the system, SLW will be a stranded asset because it would not be needed without the customers in Slayton. As explained by Company witness Peterson, SLW was constructed to serve customers in Slayton and with the expectation of continuing to serve them.[346] Company witness Peterson further explained that the Company would not have built SLW if it were not serving customers in Slayton, and would not have replaced the old Slayton substation with SLW.[347] Instead, the Company stated that it would have evaluated other methods to extend service to the small number of customers that live in the area outside of Slayton.[348]

318. Slayton's testimony on this issue is inconsistent. The City's consultant initially testified that SLW would be a stranded cost – although the City recommended

[341] Ex. Xcel Energy-204, Peterson Direct at 41:23-24.
[342] Ex. Xcel Energy-206, Peterson Rebuttal at 44:15-23.
[343] Ex. Xcel Energy-206, Peterson Rebuttal at 44:15-23.
[344] Ex. Xcel Energy-206, Peterson Rebuttal at 44.
[345] Ex. Xcel Energy-206, Peterson Rebuttal at 45:1-2.
[346] Ex. Xcel Energy-204, Peterson Direct at 43:4-9.
[347] Ex. Xcel Energy-204, Peterson Direct at 43:4-9.
[348] Ex. Xcel Energy-204, Peterson Direct at 42:8-21.

allowing recovery of only a tiny fraction of its value.[349] After the Company demonstrated that the adjusted book value should be included in just compensation, the City retreated from its prior sworn testimony that SLW was a stranded cost.[350] Instead, the City argued that SLW would actually not be stranded because the Company had planned the substation for use of solar gardens.[351]

319. The evidence does not support Slayton's claim. SLW was designed and constructed in 2006 and 2007,[352] which occurred at least six years before the first CSG legislation was passed.[353] As such, the Company could not possibly have planned SLW for CSGs.

320. The Company also established that it does not have any plan to make use of SLW for CSGs[354] because CSGs are independently planned, developed, and sited by third-party developers. While several CSGs are interconnected to SLW, that is not relevant to the stranded cost analysis. SLW is included in the Company's rates, and paid for by all customers, because it was built to provide retail service in Slayton.

321. Distribution infrastructure required for interconnecting DERs is paid for by DER applicants, not retail customers.[355] To the extent SLW is not being used to provide retail service, it is not appropriate for retail customers to pay for it.

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[349] Ex. Slayton-103, Berg Direct at 28:11-14 ("Following acquisition by the City, the City will be transferring its load demand requirements to a different substation owned and operated by a different provider. As such, Xcel will have capacity within the substation that Slayton will no longer utilize. As such, this represents a stranded cost for Xcel . . . .").
[350] Ex. Slayton-105, Berg Rebuttal at 9:13-10:22.
[351] Ex. Slayton-105, Berg Rebuttal at 34:6-35:3.
[352] Ex. Xcel Energy-206, Peterson Rebuttal at 44:15.
[353] Laws of Minnesota 2013, Chapter 85, Art. 10 § 2.
[354] Ex. Xcel Energy-208, Peterson Surrebuttal at 41:6-19.
[355] Ex. Xcel Energy-208, Peterson Surrebuttal at 41:21-42:14.

322. The record evidence demonstrates that the City's consultant admitted that SLW will be stranded.[356] The City then recommends allowing recovery of approximately $412,000, or 36 percent of its book value.[357] The City has not provided any explanation for why that calculation makes sense, or attempted to relate it in any way to the actual book value of SLW. Instead, it appears that the City proposes to treat SLW as all other lost revenues, and only include the portion of SLW costs that are currently being paid by customers in Slayton – the lost revenues – in just compensation. When an asset is being stranded because of a municipalization effort, it is reasonable for it to be treated differently for purposes of just compensation than the other lost revenues.

323. The Company provided evidence that SLW was constructed to serve customers in Slayton and will not be needed if Slayton exits the system. It is undisputed on this record that SLW was built to serve customers in Slayton, that SLW would not have been built if the Company were not providing service to Slayton, and that after Slayton exits the system the Company will serve only minimal customer loads through SLW while its other customers continue to bear the burden of this cost.

324. These facts demonstrate that SLW is stranded. It would be unreasonable to require Xcel Energy's other customers to pay for the stranded costs of SLW. As such, the adjusted book value, as calculated by the Company, is appropriate to include in just compensation.

[356] Ex. Slayton-103, Berg Direct at 28:9-16.
[357] Ex. Slayton-103, Berg Direct at 28:9-16.

325. Accordingly, the current book value of Slayton is $1,145,319.[358] 98.8 percent of that book value (i.e., $1,131,354), represents the amount of load that is related to customers located in Slayton, should be treated as a stranded asset and included in just compensation.[359]

E. Method for Just Compensation

326. The final step in determining just compensation is to determine the method by which just compensation will be paid.

327. For the reasons discussed below, the costs related to the value of property, integration expense, and the stranded costs of the SLW substation should be paid as a lump sum before any transfer of Xcel Energy's property.

328. This record demonstrates that a lump sum payment will be required for lost revenues.

329. A lump sum payment is required under Minnesota law. The plain language of Minnesota Statute § 216B.45 indicates that a municipality is not eligible to purchase the utility's property until it has paid just compensation. The language describes the process for this purchase as "the commission shall, by order, determine the just compensation for the property to be purchased by the municipality". The future tense of "to be purchased" indicates that the determination of just compensation and the associated payment is a prerequisite required for the purchase of the property. Further, the language of Minn. Stat. § 216B.45, provides that a utility "shall be deemed to have consented to the purchase by

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[358] Ex. Xcel Energy-204, Peterson Direct at 41:18.
[359] Ex. Xcel Energy-204, Peterson Direct at 43:12-21.

the municipality, for just compensation, of its property". This language suggests that the municipality is not eligible to purchase the utility's property until it has paid just compensation.

330. The Company's proposal, that the City provide a lump sum payment for the lost revenues prior to the transfer of property, is consistent with the plain language of Minn. Stat. § 216B.45.[360]

331. The Company's proposal is also consistent with the Minnesota Constitution. Article 1, Section 13 of the Bill of Rights to the Minnesota Constitution provides, "Private property shall not be taken, destroyed or damaged for public use without just compensation therefor, *first paid or secured*." The Minnesota Constitution unambiguously requires that just compensation be paid before the taking occurs. And in the context where a municipality takes the private property of a public utility, Minn. Stat. § 216B.45 defines just compensation as including each of the four factors, including the value of property, lost revenue, integration expense, and other relevant factors.

332. Slayton argues that an order requiring just compensation payments would be sufficient to satisfy the Constitutional requirement that just compensation be "first paid or secured".[361] The City cites no legal authority for its position. While Commission orders have the force of law, it is not clear that a Commission order requiring payment of lost revenues over time would be "secured" by anything. It is also not clear that Commission order would provide the Company with have any remedy if Slayton cannot or will not pay.

[360] Ex. Xcel Energy-204, Peterson Direct at 26:23-24.
[361] Slayton Initial Brief at 13.

If Slayton, some years down the line, does not have the capability to pay the lost revenues, the Company would not receive the compensation it is due. As such, the just compensation mill rate proposed by Slayton would not be "secured" as required by the Constitution and, instead, it must be "first paid" before the taking occurs.

333. Slayton argues that lost revenue should be recovered using a mill rate. A mill rate is a per kWh calculation that would applied to future usage in Slayton. Slayton's methodology is unsupported because the use of a mill rate is not consistent with the law as described above.

334. Further, Slayton's reliance on prior orders of the Commission is misplaced. To support its argument for a mill rate, the City relies on the Commission's decision in the case *In the Matter of the Application by the City of Rochester for an Adjustment of its Service Area Boundaries with People's Cooperative Power Association* (hereinafter *Rochester*).[362] But the City misapplies the reasoning of that case.

335. The Commission did use a mill rate in *Rochester*, but only for usage related to certain customers. The Commission actually ordered a combination of a lump sum payment for some customers and a mill rate for others. The Commission used a mill rate to recover lost revenue for the future customers, who did not yet exist and whose consumption was entirely speculative.[363] But the Commission required a lump sum

[362] Ex. Slayton-103, Berg Direct at 15:4-11; *see In the Matter of the Application by the City of Rochester for an Adjustment of its Service Area Boundaries with People's Cooperative Power Association*, Docket No. E299, 132/SA-93-498, ORDER DETERMINING COMPENSATION AND DENYING MOTION TO DISMISS (Nov. 30, 1995) (*Rochester*).
[363] *Rochester*, Docket No. E299, 132/SA-93-498, ORDER DETERMINING COMPENSATION AND DENYING MOTION TO DISMISS AT 7 (Nov. 30, 1995).

payment for the already-existing customers,[364] and that decision was confirmed by the Commission on reconsideration.[365]

336. The evidence provided in the record indicates that the customers in Slayton are far more like the already-existing customers in *Rochester* than the future customers. The Company has provided service to the customers in Slayton for decades, and those customers are not speculative like the future customers in *Rochester*. The Company used historical usage patterns in Slayton as the basis for the lost revenue calculation, which is specific evidence that distinguishes them from the uncertainty about whether future customers would appear and what their usage patterns would be.

337. The Company states that if a lump sum payment is not ordered, a payment schedule is a superior method compared to a mill rate because the use of a mill rate would introduce significant uncertainty for both the Company and the people living in Slayton. The Company stated that if consumption in Slayton is higher or lower than expected, the actual amount of lost revenue payments could be higher or lower than what is ordered by the Commission.[366] For example, if customers in Slayton install new behind-the-meter generation, the Company would receive less lost revenue than what is ordered by the Commission.[367] Alternatively, customers in Slayton might pursue building or transportation electrification,[368] which would likely increase their usage, thus requiring the

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[364] *Id.*
[365] *Rochester*, Docket No. E299, 132/SA-93-498, ORDER AFTER RECONSIDERATION at 5–6 (Apr. 24, 1996) (adopting a compensation including a lump sum, representing amounts attributable to current customers, and a mill rate, representing amounts attributable to the loss of future customers).
[366] Ex. Xcel Energy-204, Peterson Direct at 29:15-26.
[367] Ex. Xcel Energy-204, Peterson Direct at 29:15-26.
[368] Ex. Xcel Energy-204, Peterson Direct at 29:15-26.

City to pay more lost revenues than the Commission ordered. There is little benefit in this significant uncertainty.

338. Accordingly, if a lump sum is ultimately rejected by the Commission, a payment schedule setting out a specific amount to be paid by Slayton on a regular schedule would be the next most appropriate method for recovering lost revenues. This method would reduce uncertainty and risk for both the Company and the City.

339. Lastly, with respect to the lump sum, the Company applied a discount rate calculation to the lump sum payment to reflect the time value of money. If a payment schedule or mill rate is applied, then there would be no timing difference between when the lost revenues would have been received and when the Company would receive payment from Slayton. Accordingly, under those circumstances, no discount rate is appropriate.

VIII. CREDIBILITY

340. Slayton argues that Xcel Energy's witnesses in this proceeding are not credible. Slayton suggests that the Company's analysis is unreliable because the Company has changed its position compared to previous service territory acquisitions and because the Company had errors in its lost revenue calculation.[369]

341. Slayton disagrees with the Company's analysis on lost revenues, but that is not a reasonable basis for concluding that the Company's analysis or witnesses are not credible. Similarly, the errors that Slayton claims are in the Company's lost revenue calculation are not errors, but are methodological factors that Slayton disagrees with. These

[369] Slayton Initial Brief at 25-29.

decisions should be resolved based on the evidence in the record, but the fact that parties disagree about certain assumptions in the modeling does not go to credibility.

342. Xcel Energy's witnesses are credible. In particular, Xcel Energy witness Lisa Peterson is an experienced and credible expert in this area.[370] During the evidentiary hearing, witness Peterson demonstrated a deep and comprehensive understanding of the record, utility ratemaking, and the potential impact of this proposed transaction on Xcel Energy and its other customers. Xcel Energy witness Bixuan Sun is also highly experienced and credible.[371]

343. In response to Slayton's arguments about credibility, Xcel Energy pointed to credibility issues with Slayton's witnesses. Slayton's main witness, David Berg, has provided testimony on just compensation in several other Commission cases. Xcel Energy correctly pointed out that the Commission has never adopted the lost revenue recommendation of witness Berg, raising legitimate concerns about the reliability of his analysis.[372] Similarly, Xcel Energy raised concerns regarding Slayton witness Mark Mitchell, noting that he had provided testimony about is perspective as an engineer, but that witness Mitchell is not a licensed engineer in Minnesota, has never been licensed in Minnesota, and that his license in Colorado expired over twenty years ago.[373]

[370] Ex. Xcel Energy-204, Peterson Direct at Schedule 1.
[371] Ex. Xcel Energy-210, Sun Direct at Schedule 1.
[372] Xcel Energy Reply Brief at Section V.
[373] Tr. Evid. Hearing at 17 (Mitchell); Xcel Energy Reply Brief at Section V.

344. In comparison, Xcel Energy's witnesses are more credible than Slayton's. For these reasons, the analysis from Xcel Energy's witnesses should receive comparatively more weight.

CONCLUSIONS OF LAW

1. Any of the foregoing Findings of Fact more properly designated as Conclusions of Law are hereby adopted as such.

2. The Commission granted Slayton's request for a proceeding under Minn. Stat. § 216B.45, and referred the matter to the Court of Administrative Hearings.[374]

3. The public and parties received proper and timely notice of the hearing and the parties complied with all procedural requirements of statute and rule.

4. In determining just compensation, the Commission is required to consider four factors: (1) "the original cost of the property less depreciation", (2) "loss of revenue to the utility", (3) "expenses resulting from integration of facilities", and (4) "other appropriate factors."[375]

5. The record demonstrates that Slayton's plan to acquire Xcel Energy's property and customers so that the customers can receive service from Nobles is not a public use consistent with Minn. Stat. § 216B.45.

6. If Slayton acquires Xcel Energy's property within the Slayton City Limits, just compensation should be required as recommended by Xcel Energy.

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[374] *In the Matter of the Petition of the City of Slayton for the Determination of Compensation for City Acquisition of Xcel Energy Electric Service Territory*, Docket No. E-002, PT-7157/SA-25-129, NOTICE OF AND ORDER FOR HEARING at 2 (June 2, 2025).

[375] Minn. Stat. § 216B.45.

RECOMMENDATIONS

1. Slayton's proposal to purchase Xcel Energy's property so that it can receive service from Nobles instead of Xcel Energy is not consistent with the law and does not satisfy the requirements of Minn. Stat. § 216B.45. Accordingly, the Company is not legally required to sell its property as part of this transaction but if it elects to do so, it must be paid just compensation.

2. The Company is entitled to just compensation as follows based on application of the four factors as set forth in the findings of fact from above:

Xcel Energy Surrebuttal Just Compensation Recommendation[376]

Value of Property	$3,220,653
Loss of Revenue*	$34,710,977
Meter Integration Expense	Actual Cost, Est. $140,000
Continued Service Integration Expense	Actual Cost, Est. $15,000
Customer DER Integration Expense	Actual Cost, To Be Identified
Engineering Studies and Upgrades Integration Expense	Actual Cost, To Be Identified
MN DIP Impact Integration Expense	Actual Cost, To Be Identified
Stranded Slayton West Substation	$1,131,354
Total	**$39,217,984**

*or $3,153,021 per year for twenty years

[376] *See* Ex. Xcel Energy-208, Peterson Surrebuttal at 45, Table 1. This table has been adjusted to clarify the distinction between some categories of integration expense.

Dated: ___________________________

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CHRISTA L. MOSENG
Administrative Law Judge

NOTICE

Notice is here hereby given that exceptions to this Report, if any, by any party adversely affected must be filed under the time frames established in the Commission's rules of practice and procedure, Minn. R. 7829.2700 and 7829.3100, unless otherwise directed by the Commission. Pursuant to Minn. R. 7829.2700, subp. 3, the parties will be granted an opportunity for oral argument before the Commission prior to its decision. The Commission will make the final determination of the matter after the expiration of the period for filing exceptions, or after oral argument, if an oral argument is held.

The Commission may, at its own discretion, accept, modify, or reject the ALJ's recommendations. The recommendations of the ALJ have no legal effect unless expressly adopted by the Commission as its final order.