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PUC E-002, PT-7157/ SA-25-129

STATE OF MINNESOTA
COURT OF ADMINISTRATIVE HEARINGS

FOR THE PUBLIC UTILITIES COMMISSION

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

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FINDINGS OF FACT, CONCLUSIONS OF LAW, AND RECOMMENDATION

The above-entitled matter came before Administrative Law Judge Christa L. Moseng for an evidentiary hearing on February 5, 2026. The parties submitted post-hearing briefs, reply briefs, and proposed findings. The record closed on March 30, 2026.

James M. Strommen, Joshua P. Weir, 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 or the Company);

Katherine Arnold, Assistant Attorney General, appeared on behalf of the Minnesota Department of Commerce (Department); and

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

An online public hearing was conducted via WebEx on December 2, 2025. Notice of the public hearing was provided to potentially affected customers by publication in the Murray County Wheel Herald on November 24, 2025, in the online version of the Murray County Wheel Herald during the week of November 17, 2025, direct email messaging with existing customers, and a social media campaign on Facebook.[1]

STATEMENT OF THE ISSUE

Under Minn. Stat. § 216B.45 (2024), what amount would constitute "just compensation" for the property to be purchased by Slayton?

[1] Letter to Judge Moseng from Ryan Barlow (Nov. 24, 2025) (eDockets No. 202511-225256-01).

SUMMARY OF RECOMMENDATION

The Judge respectfully recommends that the Commission determine just compensation as follows:

1. In consideration of the original cost of property less depreciation, adopt the parties' agreement to update the calculated value at the transaction close and to provide the updated documentation including a list of the final assets, their original cost, and their accumulated depreciation at the time of the transfer, and regard this final calculation as "the original cost of the property less depreciation."

2. In consideration of the loss of revenue to the utility:

- apply a 10-year lost-revenue time horizon;
- adopt Xcel's estimates of reasonably foreseeable consumption and rate growth; and,
- determine that the lost revenue should be offset by the following avoided costs:
    - fuel and purchased power costs that vary directly with Slayton's load;
    - clearly variable O&M expenses shown to decrease when Slayton leaves; and,
    - demonstrated reductions in customer service or billing costs attributable to loss of Slayton accounts.

3. In consideration of expenses resulting from integration of facilities, include the actual expense amounts incurred for Xcel's continued service integration and meter integration.

4. In consideration of "other appropriate factors," the Commission should:

- require Xcel to analyze how the Slayton West (SLW) substation will be used after the transfer;
- determine that the stranded portion of SLW's book value be computed consistent with these findings and paid in compensation as an "other appropriate factor"; and,
- require Xcel to make an appropriate rate adjustment or refund to ensure that its ratepayers do not continue to pay for SLW.

In addition, the Commission should determine the just compensation to be paid in the form of a mill rate[2] payment method for the loss of revenue component, and a lump sum for the other compensation components. If the Commission determines a mill rate is an appropriate form of compensation, it should not reduce the lost-revenue

[2] A mill rate in this case is a rate that would be applied to Slayton customers' future usage in Slayton.

amount to present value prior to calculating the mill rate. In lieu of reducing the amount to present value, the mill rate should be calculated based upon sales forecasted at the midpoint of the lost-revenue time horizon.

Based on the evidence in the hearing record, the Judge makes the following:

FINDINGS OF FACT

I. Background

1. The City of Slayton (City) is a municipal corporation located in southwest Minnesota and situated within Xcel Energy's assigned electric service territory.[3] The City is seeking to acquire Xcel's electric distribution facilities within City limits and form a municipal electric utility.[4]

2. The City council has conditional authority to acquire Xcel's facilities within the City to form a municipal utility.[5] However, negotiations between the City and Xcel failed to reach agreement on the purchase price for those facilities.[6]

3. Under Minnesota Statute § 216B.45, the Commission determines just compensation of the property being purchased when a municipality and a public utility are unable to reach agreement.[7]

4. The City filed a petition requesting determination of just compensation for the City's acquisition of Xcel's property under Minn. Stat. § 216B.45.[8] The Commission reviewed the City's petition and referred the matter to the Court of Administrative Hearings for contested case proceedings.[9] Following the submission of pre-filed testimony by the City, Xcel, and the Department, an evidentiary hearing was held on February 5, 2026.

II. Burden of Proof

5. Xcel argues the City bears the burden of proof to demonstrate by preponderance of the evidence that its proposed just compensation is reasonable and consistent with the law as they produced the petition for the municipal acquisition.[10]

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[3] Exhibit (Ex.) Slayton-100 (Petition of the City of Slayton for the Determination of Compensation Under MS 216B.45 and for a Contested Case Proceeding (Petition)) at 1 (Feb. 24, 2025) (eDockets No. 20252-215733-01).
[4] *Id.*
[5] *Id.*
[6] *Id.* at 3.
[7] Minn. Stat. § 216B.45.
[8] Ex. Slayton-100 (Petition).
[9] Notice and Order for Hearing. (June 2, 2025) (eDockets No. 20256-219471-01). At the time of the Commission's referral order, the Court of Administrative Hearings was known as the Office of Administrative Hearings.
[10] Xcel Initial Br. at 14 (March 13, 2026) (eDocket No. 20263-229267-02).

6. The City argues the party alleging damages and claiming compensation carries the burden of proof as normally observed in eminent domain and other civil proceedings.[11]

7. "The 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."[12]

8. Minn. Stat. § 216B.45 does not provide a different burden of proof.

9. The sole issue presented is to determine just compensation for the property to be purchased by the municipality.[13]

10. Accordingly, each party proposing that justice requires the Commission to set compensation at a certain amount or using a certain method has the burden to establish by a preponderance of the evidence that its proposal is just.[14]

11. Xcel argues that the Commission should apply the provision of Minn. Stat. § 216B.03 requiring that doubt as to reasonableness should be resolved in favor of the consumer. The Company further argues that this means the Commission should resolve doubt in favor of Xcel's customers.

12. Minn. Stat. § 216B.03 and its requirement to settle doubt in customers' favor contemplates its application when setting utility rates. It expresses a clear public policy to favor customers over their utility in a rate setting context—a context where, on many issues, the utility and its customers are adversarial.

13. Minn. Stat. § 216B.03 is inapt. This proceeding under Minn. Stat. § 216B.45 is not a rate setting proceeding. Here, both the Company and the City can claim to champion the rights of certain customers. The Commission should not resolve doubt uniformly in favor of one set of utility customers (Xcel's remaining customers) and, in so doing, stack the deck against another set of utility customers (those who would become Slayton municipal customers).

III. Applicable Law

14. Minnesota Statutes §§ 216B.44 and 216B.45 address the purchase of utility property in service territory extensions and service territory acquisitions, respectively. Both statutes require substantially the same considerations be evaluated to determine valuation of property in cases of municipal service territory extension and municipal purchase of public utility matters: (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.

[11] Slayton Initial Br. at 14 (March 13, 2026) (eDocket No. 20263-229267-02).
[12] Minn. R. 1400.7300, subp. 5 (2025).
[13] Minn. Stat. § 216B.45 (2024).
[14] For purposes of this report, the Judge reasons that an unreasonable result would also be unjust.

15. The Commission has determined compensation in several service territory extension cases under Minn. Stat. § 216B.44; however, it has not yet determined just compensation in a service territory acquisition case under Minn. Stat. § 216B.45.[15]

16. The Commission has explained the purpose of the compensation analysis under Minn. Stat. § 216B.44 (municipal service territory extension) is "to place the displaced utility in the same financial position it would have occupied had the acquisition not occurred."[16] Because the statutes use the same words to describe the considerations pertinent to compensate for utility property acquired by municipalities, prior Commission analyses under Minn. Stat. § 216B.44 may be strongly persuasive, though not controlling, for determining "just compensation" under Minn. Stat. § 216B.45.[17]

IV. Just Compensation

17. The Commission must consider the following to determine just compensation for the utility property to be purchased: (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.[18]

A. Original Cost Less Depreciation

18. The City of Slayton and Xcel agree that the current value of the property interest at stake is the net book value of the distribution assets being transferred—calculated as original costs less accumulated depreciation.[19] This method is aligned with standard utility accounting and ratemaking practices and is thus reasonable.

19. The City generally agrees to accept Xcel's calculations of the property value.[20] There is no dispute that the original cost of the distribution infrastructure located inside City limits is $4,714,674, and, when accounting for depreciation, the current value

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[15] *See* Ex. Slayton-100 (Petition) at 2-3.

[16] *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 (July 11, 1990), *affirmed* 470 N.W. 2d 525 (Minn. Ct. App. 1991), *review denied*. [hereinafter, *Rochester I]*.

[17] The adjective "just" modifies the compensation to be determined under Minn. Stat. § 216B.45 but does not appear in Minn. Stat. § 216B.44. However, the word's absence in Minn. Stat. § 216B.44 cannot be construed to imply that the Commission could determine an *unjust* value for the property at issue under that statute. *See* Minn. Sat. § 216.16 (2024) (authorizing the Commission to issue such order after hearing "as may be just"). The difference, therefore, is not material to any comparative analysis of the two statutes or their applications.

[18] Minn. Stat. § 216B.45.

[19] Ex. DOC-301 at 6 (Ngo Rebuttal) (Jan. 9, 2026) (eDocket No. 20261-226693-01).

[20] Ex. Slayton-104 at 11 (Berg Direct-Trade Secret) (eDocket No. 202511-225208-01).

of the property is $3,220,653.[21] Slayton[22] and Xcel Energy[23] agree to the methodology to update this factor, as 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 continue to provide safe and reliable service to Slayton customers while the purchase is pending.[24]

20. The Department agrees to this methodology and recommends that the Commission require Xcel 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.[25]

21. The Judge recommends adopting the parties' agreement to update the calculated value at the transaction close and provide the updated documentation including a list of the final assets, their original cost, and their accumulated depreciation at the time of the transfer, and regarding this final calculation as "the original cost of the property less depreciation."

B. Loss of revenue to the utility

22. The second factor the Commission must consider in determining just compensation is lost utility revenue.[26]

23. 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."[27]

24. In a prior decision under the similar municipal service-territory extension statute,[28] the Commission observed that in "almost all cases, the largest portion of the compensation award is loss of revenue."[29]

25. The Company is currently recovering revenue from customers living in Slayton each year and would earn that revenue in perpetuity, absent Slayton's purchase and exit from Xcel's system.

[21] Ex. Xcel-204 at 10 (Peterson Direct) (Nov. 21, 2025) (eDocket No. 202511-225209-03). Detailed information about the property is included. Ex. Xcel-205, Schedule 1 (Peterson Direct-Trade Secret) (Nov. 21, 2025) (eDocket No. 202511-225209-02).
[22] Ex. Slayton-105 at 3 (Berg Rebuttal) (Jan. 9, 2026) (eDocket No. 20261-226729-02).
[23] *Id.* at 11.
[24] Ex. Xcel-204 at 11 (Peterson Direct).
[25] Department Initial Br. at 4 (citing Ex. DOC-301 at 6 (Ngo Rebuttal)) (March 13, 2026) (eDocket No. 20263-229260-01).
[26] Minn. Stat. § 216B.45.
[27] *Rochester I*, Order Determining Compensation at 11.
[28] Minn. Stat. § 216B.44.
[29] *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 3 (June 27, 2007). [hereinafter, *City of Redwood Falls]*.

26. The parties generally agree that loss of revenue is appropriately calculated as the present value of the net operating margins that Xcel would have earned from serving the Slayton area.[30] This approach is consistent with past Commission decisions where similar definitions were used.[31]

27. However, the parties do not agree regarding the appropriate time horizon, anticipated customer growth, or avoided costs this calculation should reflect. Thus, the primary area of disagreement between the parties concerns the proper calculation of loss of revenue.

28. Xcel initially sought a loss of revenue payment of $40.1 million over 20 years.[32] Following the exchange of rebuttal testimonies, Xcel reduced its requested loss of revenue payment to approximately $34.7 million.[33] Xcel is seeking payment for its loss in revenue in a lump sum, or as an annual payment of $3,153,021 per year for 20 years.[34]

29. The City proposes that Xcel be compensated 4.2 mills per-kWh of sales within the City of Slayton for a period of five years from the date of closing on the transaction, or approximately $430,525 in anticipated lost revenue (assuming 20,501,184 kWh of annual sales to customers).[35]

1. Lost Revenue: Time Horizon

30. The time horizon establishes the number of years of future revenue to include in calculating the utility's "lost revenue." Slayton proposed a time period of five years.[36] The Department recommends 10 years.[37] The Company proposed 20 years.[38]

31. A utility has a duty to adjust to changed circumstances and mitigate revenue losses as a result of the sale.[39]

32. The City proposed a five-year period, arguing that Xcel is a multi-state investor-owned utility with considerable operational and financial flexibility which include planning horizons, such as its Integrated Distribution Plan, allowing it to delay or cancel

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[30] Ex. Slayton 103 at 14 (Berg Direct) (Nov. 21, 2025) (eDocket No. 202511-225208-02); Ex. DOC-301 at 7 (Ngo Rebuttal).
[31] *See, e.g., City of Redwood Falls*, Order Determining Compensation at 3-4 (determining compensation under Minn. Stat. § 216B.44).
[32] Ex. Xcel-204 at 46, Table 4 (Peterson Direct).
[33] Ex. Xcel-208 at 45, Table 1 (Peterson Surrebuttal) (Jan. 22, 2026) (eDocket No. 20261-227268-02).
[34] *Id*.
[35] Ex. Slayton-105 at 35 (Berg Rebuttal).
[36] Ex. Xcel-204 at 13 (Peterson Direct).
[37] Ex. DOC-301 at 8 (Ngo Rebuttal).
[38] Ex. Slayton-114 at 33 (Berg Surrebuttal) (Jan. 22, 2026) (eDocket No. 20261-227267-01).
[39] *See In re Appl. of the City of Rochester for an Adjustment of its Serv. Area Boundaries with People's Coop. Power Ass'n*, Docket No. E-132,299/SA-93-498, Order After Reconsideration at 7 (Apr. 24, 1996). [hereinafter, *Rochester II*].

discretionary projects to mitigate minor load losses.[40] Slayton argues that Xcel's five-year distribution planning period supports its position.[41]

33. The City distinguishes prior Commission decisions under Minn. Stat. § 216B.44, asserting that those decisions "were based on factors such as the co-ops' relatively smaller size, their lack of generation capacity and procurement of power through longer-term power purchase agreements (PPAs), and the ten-year planning period that all factor in a co-op's ability to adjust to the loss of service area."[42] Slayton contrasts those factors with Xcel's larger scale, business structure, and the relative size of its system to the revenue that would be lost when Slayton exits.[43]

34. Sales in Slayton represent less than one-tenth of one percent of Xcel's overall sales in Minnesota.[44]

35. Xcel argues that an appropriate time horizon must contemplate utility planning timelines and the expected lifespan of utility assets.[45] In support of its position, Xcel cites two FERC cases that dealt with recovery of stranded costs and permitted a 15- and 20-year recovery period, respectively.[46]

36. Xcel presented testimony from Dr. Bixuan Sun, who is the Director of Resource Planning and Bidding, and has responsibility for the Company's planning horizons for generation, transmission, and distribution resources.[47] The Company has a different planning horizon for generation and distribution resources.[48] Dr. Sun provided testimony about the planning horizons and their relationship to lost revenues.

37. The Department contends that a ten-year time horizon balances the need to compensate for real economic loss against speculative forecasts, while giving Xcel a reasonable period to adjust its system to changes brought on by the property transfer.[49]

38. The Department notes that in service territory extension cases under Minn. Stat § 216B.44, the Commission has repeatedly concluded that a ten-year time horizon is appropriate for compensating the utility's loss of revenue from both existing and future customers and that an overly long time horizon is unjustifiable.[50]

[40] Fritsch Rebuttal at 12–15 (Feb. 4, 2026) (eDocket No. 20262-227834-01).
[41] Slayton Initial Br. at 24 (March 13, 2026) (eDocket No. 20263-229288-01).
[42] Ex. Slayton 103 at 38-44 (Berg Direct).
[43] *Id.* at 7–9 (comparing coops to IOUs), 44–46 (comparing Xcel to cooperatives).
[44] *Id.* at 45.
[45] Ex. Xcel-204 at 13 (Peterson Direct).
[46] *Id.* at 15-16.
[47] Ex. Xcel-210 at 1, Schedule 1 (Sun Direct) (Nov. 21, 2025) (eDocket No. 202511-225209-03).
[48] Sun provided testimony regarding transmission planning horizons, but the Company now agrees that transmission costs are avoidable. Accordingly, the transmission planning horizon is not relevant here.
[49] Ex. DOC-301 at 8 (Ngo Rebuttal).
[50] *See Rochester II*, Order Determining Compensation at 5, 11; *In re Appl. of the Grand Rapids Pub. Utils. Comm'n to Extend its Assigned Serv. Area into the Area Presently Served by Lake Country Power*, Docket No. E-243,106/SA-03-896, Order Determining Compensation at 19 (Sept. 29, 2005). [hereinafter, *Grand Rapids Pub. Utils. Comm'n].*

39. The Department believes that applying a ten-year horizon here would align the case with the Commission's longstanding practice in similar proceedings, balance the need to compensate real economic loss against the risk of speculative forecasts, and give Xcel a reasonable period to adjust its system and customer base to reflect the changes caused by the City's formation of a municipal utility.[51]

40. In the *City of Las Cruces* case, FERC reasoned that both 10- and 20-year planning horizons were in evidence and, upon evaluating all of the facts and circumstances, a 20-year time horizon was appropriate to compute compensation for stranded costs.[52] In the *City of Alma* case, FERC confirmed that the lost revenue time period should be based on the utility's actual planning horizon.[53] In that case, the record demonstrated that the relevant planning period was 15 years, so the FERC established a lost revenue time period of 15 years.[54]

41. Both the City of Las Cruces and City of Alma cases pertained to the application of FERC Order No. 888,[55] which expressly adopts a formula to promote wholesale competition for transmission services. FERC adopted a formula for calculating "a departing generation customer's stranded cost obligation, on a present value basis, under a revenues lost approach[.]"[56] FERC states that the formula "is designed for determining stranded costs associated with departing wholesale generation customers and for retail-turned-wholesale customers."[57] The formula reduces the departing customer's stranded cost obligation by the competitive market value of the released capacity and associated energy.[58]

42. Slayton would be neither a "departing wholesale generation customer" nor a "retail-turned-wholesale" customer of Xcel. And the Company concedes, in this proceeding, that transmission costs should be treated as fully avoided because the lost revenues from customers in Slayton will be offset by increased revenues from wholesale transmission customers.[59]

43. In *In re: Grand Rapids*, the Commission explains that its net-revenue-loss formula "was developed in the course of a complex service area compensation case in 1990 and has been refined in clarified in subsequent cases as new issues have arisen."[60] It states that the Commission has "set" the revenue-compensation period "at

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[51] Ex. DOC-301 at 8 (Ngo Rebuttal).
[52] *City of Las Cruces, New Mexico v. El Paso Electric Company*, 87 FERC ¶ 61,201, 61,750 (1999).
[53] *City of Alma, Michigan*, 96 FERC ¶ 61,163, 61,714 (2001).
[54] *Id.*
[55] Promoting Wholesale Competition Through Open Access Non-Discriminatory Transmission Services by Public Utilities; Recovery of Stranded Costs by Public Utilities and Transmitting Utilities, 61 Fed. Reg. 21540-01 (May 10, 1996) (to be codified at 18 C.F.R. Pts. 35 and 385) (1996 WL 239663 at *21540).
[56] *Id.* at *21658.
[57] *Id.*
[58] *Id.* at *21659.
[59] Xcel Initial Br. at 45.
[60] *Grand Rapids Pub. Utils. Comm'n*, Order Determining Compensation at 3 (citing *Rochester I*, Order Determining Compensation).

ten years, to reflect the intermediate planning horizon of most Minnesota utilities."[61] The Commission specifically agreed with the judge's finding that Lake Country Cooperative used a ten-year "transition planning period and a thirty-year long-range forecast."

44. In *Rochester II*, the Commission adopted a judge's recommendation to adopt a 10-year lost revenue time horizon, for the reasons stated by the Judge.[62] In that case, the judge found that: ten years is a standard planning horizon used by People's and other rural electric cooperatives; [63] a ten-year period recognizes People's opportunity and obligation to mitigate its net loss of revenue; and, the cooperative is able to sufficiently mitigate any loss within 10 years. The judge in *Rochester II* also noted that the Commission adopted a ten-year time horizon in two prior cases, and found no new or different evidence presented to justify a longer period.[64]

45. FERC's time-horizon analyses undertaken specifically to implement its Order No. 888 formula are not controlling here. The Commission has historically considered not just long-range planning timelines, but also deemed probative a relevant transition planning period or "intermediate planning horizon."

46. Accordingly, a just recovery period for lost revenues takes into consideration medium-term planning timelines for distribution and generation as a reasonable time period for the utility to mitigate lost revenues.

47. For generation planning, the Company conducts resource planning in Integrated Resource Plans (IRPs), using a modeling software called EnCompass.[65] The time horizon for EnCompass modeling runs is 30 years.[66] Xcel asserts that the 30-year timeline stems from "regulatory requirements." The Company's witness testified that Wisconsin requires a 30-year capacity expansion modeling evaluation period and as a consequence Xcel's integrated Upper Midwest system uses a 30-year planning period for its generation resource planning.

48. Minnesota requires utilities to submit periodic resource plans to meet service needs of their customers for a 15-year forecast period.[67] Between scheduled resource plans, a utility is required to notify the Commission of changed circumstances that may significantly influence the selection of resource plans, and the Commission may determine whether additional proceedings are necessary before the next

[61] *Grand Rapids Pub. Utils. Comm'n*, Order Determining Compensation at 3. Notably, the Commission was highly critical of, and rejected significant portions of, the Judge's recommendation in *Grand Rapids Pub. Utils. Comm'n*, but adopted the judge's finding 27, which determined the appropriate compensation period to be ten-years.
[62] *Rochester II*, Order Determining Compensation at 8.
[63] In *Rochester II*, the City of Rochester was extending its service area into territory it had annexed and adjusting territory boundaries with People's Cooperative Power Association.
[64] *Rochester II*, Findings of Fact, Conclusions, and Recommended Order at 11 (May 31, 1995).
[65] Ex. Xcel-210 at 3 (Sun Direct).
[66] *Id.*
[67] Minn. Stat. § 216B.2422 (requiring resource plan filings); Minn. R. 7843.0100, subp. 6 (2025) (defining forecast period).

scheduled resource-plan proceeding.[68] It is unclear on this record whether Xcel would regard Slayton's departure as requiring a resource-planning notice to the Commission.

49. Xcel's resource plan filings include a "five-year action plan" and a "long-term" plan covering the required 15-year forecast period.[69]

50. For distribution planning, the Company's main planning process is the Integrated Distribution Plan (IDP).[70] The Commission requires Xcel Energy to file an IDP with a 10-year "long term" planning horizon every two years.[71]

51. However, Xcel uses a five-year distribution capital expenditure planning timeline.[72] For its 2023 distribution plan, Xcel only includes a five-year distribution capital budget. In describing its grid modernization project, Xcel characterizes years 2023–2025 as "near term," 2026–2028 as "medium term," and 2029–2032 as "long term."[73]

52. The Commission should approach the lost revenue calculation through a fact-specific analysis and not by applying a prior decision or historical factor that is not derived from evidence in this record.

53. Subfactors affecting loss-of-revenue reasonably include (1) an appropriate lost-revenue time horizon; (2) reasonably foreseeable future sales growth; and (3) avoided costs.

54. The Commission's prior decisions under Minn. Stat. § 216B.44 are more relevant than the FERC cases cited by Xcel, but none are controlling and all of them can be distinguished from this case.

55. Time horizons established in FERC decisions implementing Order No. 888 are ill-suited for application in this circumstance because they do not contemplate distribution planning timelines.

56. Prior decisions under Minn. Stat. § 216B.44 pertain to electric cooperatives and commonly cite a ten-year planning horizon.

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[68] Minn. R. 7843.0500 (2025).
[69] Ex. Slayton-105 at 24 (Berg Rebuttal); *see In the Matter of Xcel Energy's 2024-2040 Upper Midwest Integrated Resource Plan,* Docket No. E002/RP-24-67, 2024–2040 Upper Midwest Integrated Resource Plan, (Feb 1, 2024) (judicial notice taken). City witness Berg and Xcel, in its Reply Brief, each cite this resource plan filing. Ex. Slayton 103 at 26, 45 (Berg Direct); Ex. Slayton-105 at 19-20 (Berg Rebuttal); Xcel Reply Br. at 24 (March 30, 2026) (eDocket No. 20263-229789-02).
[70] Ex. Xcel-210 at 4 (Sun Direct).
[71] *In the Matter of Xcel Energy's 2023 Integrated Distribution Plan*, Docket No. E002/M-23-452, Order Accepting 2023 Integrated Distribution Plan and Modifying Reporting Requirements, attached Minnesota Integrated Distribution Planning Requirements for Xcel Energy at 2 (Sept. 16, 2024). [hereinafter, *Xcel Energy's 2023 Integrated Distribution Plan*].
[72] Ex. Slayton 103 at 47-48 (Berg Direct); Ex. Slayton-105 at 25-26 (Berg Rebuttal); *Xcel Energy's 2023 Integrated Distribution Plan*, Integrated Distribution Plan 2024– 2033 at 21 (Nov. 1, 2023). [hereinafter. 2023 IDP].
[73] Ex. Slayton-105 at 26 (Berg Rebuttal); 2023 IDP at 35.

57. 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. The utilities in those cases are also subject to different regulations, operational considerations, and are considerably smaller—in service territory and financially—than Xcel.

58. As Xcel argues, the reasoning applied in those cases was not that the lost revenue time period should always be ten years; it was that determining the lost revenue time period requires a fact-based evaluation of the record, based on the relevant planning horizons.

59. However, the Commission's prior decisions under Minn. Stat. § 216B.44 significantly emphasize reliance on *intermediate*-term planning horizons, not the longest-term planning horizons.

60. Accepting the parties' agreement that transmission lost revenues are completely offset, Slayton's departure from Xcel's system would deprive Xcel of revenue for Xcel's generation and distribution functions. A reasonable lost-revenue calculation should consider the planning timelines for both functions.

61. The record contains evidence of five- and ten-year distribution planning timelines, including the Commission-required 5-year action plan.[74] The ten-year distribution planning timeline is a long-term timeline.

62. The record contains evidence of 15- and 30-year generation planning timelines.

63. Adopting Xcel's proposed 20-year time horizon would unreasonably emphasize its longest long-term planning timeline, which in turn is premised on a Wisconsin regulation that imposes a longer planning timeline than Minnesota law or regulation requires. It would depart from prior Commission decisions that emphasized the planning horizon of "most Minnesota utilities."[75]

64. Additionally, the Commission should reject Xcel's invitation to regard the expected life of the assets as a separate consideration when evaluating the lost revenue time horizon. The expected life of investments (1) is accounted for in the net book value of the assets being purchased; and, (2) for assets not being purchased, is appropriately addressed by using the relevant planning time-horizons for the implicated assets' functions. In addition, while its assets are used and useful for electric service Xcel has the opportunity to earn a rate of return that accounts for the risk of the underlying investment.

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[74] *Xcel Energy's 2023 Integrated Distribution Plan*, Order Accepting 2023 Integrated Distribution Plan and Modifying Reporting Requirements, attached Minnesota Integrated Distribution Planning Requirements for Xcel Energy at 8.

[75] *Grand Rapids Pub. Utils. Comm'n*, Order Determining Compensation at 3. *See also Rochester II*, Findings of Fact, Conclusions, and Recommended Order.

65. Adopting the City's proposed five-year lost-revenue time horizon would give no weight at all to relevant generation-planning timelines in the record.

66. Early in this proceeding, Xcel considered a ten-year compensation period to be appropriate, citing "long-established precedent that has been affirmed by courts and relied upon by affected entities."[76]

67. Of the parties' proposed lost-revenue time horizons, the Department's recommended 10-year time horizon is the most reasonable and best supported by the record. It reasonably reflects consideration of both relevant planning timelines that bear on Xcel's ability to adapt its business and mitigate revenue lost from Slayton's departure.[77]

68. The Judge recommends that the Commission apply a ten-year lost revenue time horizon.[78]

2. Lost Revenue: Reasonably Foreseeable Future Sales Revenue Growth

69. The next subfactor to consider is the reasonably foreseeable revenue growth from sales. The Commission has previously rejected a theory under which no compensation would be paid for future customers in a service territory and concluded that such an approach may "undermine the long-term planning by utilities that service area statutes were enacted to ensure."[79]

70. Both the City and Xcel consider customer growth in their loss of revenue analysis.[80] The City, however, rejects reliance on system-wide customer growth and urges the calculation to reflect Slayton-specific population changes.[81]

71. The Department recommends that the calculation for net lost revenue should reflect existing Slayton customers and reasonably foreseeable customer growth.[82] The Department does not opine regarding whether Xcel's or Slayton's forecasts are more reasonable.

72. To determine the amount of revenues from Slayton customers in future years, the Company established a growth rate for three key data points: (1) the number

[76] Ex. Xcel-200 at 6 (Comments of Xcel Energy) (Apr. 7, 2025) (eDockets No. 20254-217344-01).
[77] Ex. DOC-301 at 8 (Ngo Rebuttal). Although Xcel disagrees about the weight to be given to the timelines, the Company appears to agree that it is appropriate for the Commission to select a reasonable, weighted blend of relevant distribution- and generation-planning timelines.
[78] The Judge observes that this timeline, derived from this record, is consistent with the Commission's historical practice in cases under Minn. Stat. § 216B.44.
[79] *See Rochester II*, Order Determining Compensation at 4-6, 9-11.
[80] Ex. Xcel-204 at 18 (Peterson Direct); Ex. Slayton-106 at 7-8 (Berg Rebuttal-Trade Secret) (Jan. 9, 2026) (eDocket No. 20261-226729-03).
[81] *Id.*
[82] Department Initial Br at 6.

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.[83]

73. Xcel's analysis relies on the growth rates for the number of customers and the amount of energy consumed by an average customer from the sales forecast used in Xcel Energy's currently-pending rate case.[84] These projections are company-wide, and not Slayton specific.[85]

74. 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;[86] (2) annual sales in 2024 were 5.4 percent lower than the total sales in 2015;[87] and (3) data from the U.S. Census Bureau indicates that population in Slayton decreased by 6.5% from 2013 to 2020 and in Murray County, where Slayton is located, decreased by 6.3% from 2010 to 2020, while the statewide population increased.[88]

75. Sales in Slayton in 2024 were lower than sales in 2015, but the record shows that sales were higher in 2018, 2019, 2020, 2022, and 2023 than in 2015.[89]

76. Overall, the historical kWh sales data reflects an overall trend of flat sales, neither growing nor falling to any appreciable degree, with the most recent value being the lowest since 2015 for a reason that is not apparent in the record. Essentially, since 2015, growth in consumption and the falling customer count have been offsetting.

77. Sales in Slayton have been relatively flat even though it has experienced population decline. [90] The Company experienced declining sales from 2015 to 2024 system-wide (including Slayton),[91] but the Company produced evidence, in the form of its sales forecast from the pending rate case, supporting a conclusion that sales will increase in the future as a result of factors including electrification of transportation and heating.[92]

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[83] Ex. Xcel-204 at 17-19 (Peterson Direct).
[84] Ex. Xcel-208 at 13 (Peterson Surrebuttal) (Jan. 22, 2026) (20261-227268-02).
[85] Ex. Xcel-204 at 19 (Peterson Direct) (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) [hereinafter, Rebuttal Testimony of Benjamin S. Levine]). The forecast therefore relies in part on projections of Minnesota real gross state product, the Minnesota Index of Manufacturing Production, and non-farm Minnesota Employment levels. *Id.*
[86] Ex. Slayton-105 at 7-8 (Berg Rebuttal).
[87] *Id.*
[88] *Id*. *See* Ex. Slayton 103, attached City of Slayton Land Use Plan with Active Living Component 2016 (Berg Direct).
[89] Ex. Slayton-105, attached Slayton Information Request No. 81 (Berg Rebuttal).
[90] *Id.*
[91] Ex. Xcel-208 at 14-15 (Peterson Surrebuttal).
[92] Ex. Xcel-204 at 19 (Peterson Direct) (citing Rebuttal Testimony of Benjamin S. Levine).

78. 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.[93]

79. Xcel's 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.

80. The Commission should ensure that the net lost revenue calculation reflects existing Slayton customers and reasonably foreseeable growth.

81. The bases of revenue projections offered by both Xcel and Slayton are imperfect, and of doubtful reliability for predicting future population growth. As a consequence, the evidence of the future population of Slayton is in equipoise. On this record it has not been established by a preponderance of the evidence that Slayton's population will either increase or decrease.

82. Xcel has established that its forecasts of growth in the amount of energy consumed by an average customer in Slayton, and in rates, should be adopted.

83. The Judge recommends that the Commission determine lost revenue using a growth rate based upon: (1) likely expected average-customer consumption growth; and (2) the rates that customers in Slayton would pay in the future.

3. Lost Revenue: Avoided Costs

84. Finally, in determining lost revenue, the Commission should consider avoided costs—costs that will be taken over by the municipality providing service after the transaction.[94] The Commission has previously concluded that the utility should account for costs that will be "actually shed" due to the loss of customers at issue and required consistent application of avoided costs in compensation calculations.[95]

85. The City and the Company disagree about how to evaluate which costs are avoided.

86. The City takes a broad view of avoided-cost assumptions whereas Xcel relies on narrower avoided-cost assumptions.[96] The Department did not make recommendations as to findings of avoided costs, only on how the Commission should conduct the avoided-costs analysis.

87. The Department argues, and Xcel agrees, that avoided cost calculations should include (1) fuel and purchased power costs that vary directly with Slayton's load, (2) clearly variable O&M expenses that can be shown to decrease when Slayton leaves,

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[93] Ex. Xcel-204 at 19 (Peterson Direct) (citing Rebuttal Testimony of Benjamin S. Levine).
[94] *City of Redwood Falls*, Order Determining Compensation at 4.
[95] *Id.* at 11-13; Ex. DOC-301 at 9 (Ngo Rebuttal).
[96] *Id.*

and (3) any demonstratable reductions in customer service or billing costs attributable to loss of Slayton accounts.[97]

88. 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.[98]

89. Slayton argues that costs should be treated as avoided only if an underlying asset or resource will be underutilized after Slayton exits the system.[99] City Witness Berg analyzed the 2026 revenue requirement for functional categories identified by Xcel in its cost-of-service analysis in its 2024 rate case.[100] Berg identified the following cost categories to consider:[101]

- Minimum System & Service Drop,
- Energy Services,
- On Peak Revenue Requirements,
- Off Peak Revenue Requirements,
- Energy – Related Production,
- Capacity – Related Summer Peak Production,
- Capacity – Related Winter Peak Production
- Transmission
- Primary Distribution Substations
- Primary Distribution Lines
- Secondary Distribution, Transformers

90. The City contends that Xcel will continue to fully utilize all of its assets and resources following the transfer, with the lone exception of the Slayton substation that would be underutilized after Slayton exits Xcel's system. Accordingly, Witness Berg concluded that all of Xcel's other expenses involved with serving Slayton to be fully avoided—except for part of the Slayton substation.[102]

91. 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: Fixed Production, Variable Production, Transmission, Distribution, and Customer Costs.[103]

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

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[97] *Id.*
[98] *Id.*
[99] Slayton Initial Brief at 16.
[100] Ex. Slayton 103 at 16 (Berg Direct).
[101] *Id.* at 17.
[102] *Id.* at 23–31 (lost revenue analysis), 28–30 (Slayton Substation analysis).
[103] Ex. Xcel-204 at 21, Table 3 (Peterson Direct).

93. 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 avoided costs are excluded from the Company's lost revenue calculation.

94. The Company initially recommended that transmission costs be treated as unavoidable, but changed its position after consideration of Slayton's arguments. [104] This reduces the lost revenue calculation by more than $5 million. Slayton and the Company agree that transmission costs should be treated as fully avoided because they are offset by revenues from wholesale transmission customers.[105]

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

96. 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.

97. The avoided-cost component of the lost revenue calculation concerns costs necessarily avoided as a direct consequence of the loss of customers in Slayton, not merely *possible* through acts of mitigation. Mitigation of lost revenue is addressed in the time-horizon component.

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

99. Xcel's avoided-cost analysis is the only complete analysis in the record supported by evidence and conducted in a manner consistent with the application of the lost revenue calculation formula that the parties agree should be the basis for the Commission's analysis.

100. Costs that Xcel avoids as a result of the sale should include (1) fuel and purchased power 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) any demonstratable reductions in customer service or billing costs attributable to loss of Slayton accounts.

C. Expenses Resulting from Integration of Facilities

101. The third factor to be considered in determining just compensation is "expenses resulting from integration of facilities."[106]

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[104] Slayton, in contrast, has made no adjustments to its initial recommendations.
[105] Ex. Xcel-208 at 24 (Peterson Surrebuttal).
[106] Minn. Stat. § 216B.45.

102. In direct testimony, Xcel identified an estimated cost of $15,000 related to continued-service integration, which involves removing six spans of overhead feeder from a double-deck circuit.[107] City witness Berg opined that Xcel's estimate for this work did not appear unreasonable.[108]

103. The Company identified several additional types of integration expenses, including (1) meter integration expenses; (2) customer distributed-energy-resource integration expenses; (3) engineering study and system upgrade integration expenses; and (4) integration expenses related to interconnection. These expenses include specific incremental costs the Company expects to incur due to the property transfer including costs related to community solar gardens (CSG) and other distributed energy resources (DER).[109]

104. Xcel accounts for its categories of integration costs as follows:[110]

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

105. Regarding the "meter integration expense," Xcel contends that the expense is appropriate because the Company will have to uninstall the meters not because the Company wants the meters or has any specific use for them, but because Slayton does not want to purchase them.

106. With respect to the DER Integration expense, Xcel argues that it should be allowed to track expenses incurred after the transaction because the sale "could create problems" for CSG subscribers and speculates that some Slayton customers relied on incentives for rooftop solar that they would no longer be able to receive. Xcel asserts that the actual costs that manifest (including outreach, assistance, education, and dispute resolution) should be included as part of its just compensation.[111]

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[107] Ex. Xcel-204 at 34 (Peterson Direct).
[108] Ex. Slayton-105 at 30 (Berg Rebuttal).
[109] Ex. DOC-301 at 6 (Ngo Rebuttal).
[110] Xcel Initial Br., 24 (citing Ex. Xcel-208 at 45, Table 1 (Peterson Surrebuttal) and noting: "this table has been adjusted to clarify the distinction between some categories of integration expense.").
[111] Xcel Initial Br. at 75.

107. The City opposes all but the estimated $15,000 "continued service integration expense."

108. The City opposes inclusion of an estimated $140,000 for meter integration expenses, because the City, not Xcel, will be willing to perform the meter change-out at no cost to Xcel, and Xcel should not recover from Slayton the cost to place removed meters back into service.[112] Xcel "fully intends to coordinate with the City of Slayton in removing the meters" and "commits to working collaboratively with the City to complete this work with the lowest reasonable cost."[113]

109. The City opposes paying an unspecified amounts for items such as engineering studies and upgrades and DER integration expenses. It argues that these are speculative expenses and that no estimate of these costs is in the record. The City argues that nothing in Minn. Stat. § 216B.45 requires the City to indemnify Xcel or act as a general guarantor for any future act or claim that might be traced back to the City's acquisition in some way.[114]

110. There are two types of community solar gardens authorized by state law.[115] There are at least three parties to a given CSG: the operator, the utility (in this case, Xcel), and subscribers.[116] The electricity generated by the CSG is metered where it connects with the utility system and CSG subscribers are credited for that solar energy, proportionate to the size of their subscription.[117] CSG subscribers that would be transferred from Xcel to Slayton's municipal utility would lose access to CSG subscriptions in both programs.[118]

111. Approximately one-sixth of Slayton customers are CSG subscribers. Subscribers' rights upon Slayton's exit will depend on the specific language in their contracts.[119]

112. Xcel claims it is entitled to integration expenses related to CSG program eligibility, current CSG subscribers, and DER related to the interconnection queue because of potential impact on CSG projects and DER interconnection due to the City's potential exit from Xcel's system.[120] Specifically, Xcel states it may need to conduct outreach and assist affected Slayton-area customers who are CSG subscribers, track contract-dispute-related expenses due to the cancellation or change of CSG contracts,

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[112] Ex. Slayton-105 at 29-30 (Berg Rebuttal).
[113] Ex. Xcel-208 at 32 (Peterson Surrebuttal).
[114] Slayton Initial Br. At 33.
[115] Minn. Stat. § 216B.1641.
[116] Ex. DOC-302 at 3 (Teigland Surrebuttal) (Jan. 22, 2026) (eDocket No. 20261-227258-01).
[117] *Id.* at 3.
[118] *Id.* at 4-5; Minn. Stat. § 216.1641, subds. 1(c), 6(b).
[119] Ex. Xcel-205 at 36 (Peterson Direct-Trade Secret).
[120] *Id.* at 35-40.

and expense engineering studies that may be conducted for the Slayton West substation after Slayton's exit from Xcel's system.[121]

113. The City characterized Xcel's arguments regarding CSGs and DER "as potential issues with no quantifiable solutions presented."[122] Additionally, the City argues these costs are speculative and premature and thus unreasonable.[123]

114. The Department argued that Xcel should not be allowed to recover integration expenses related to CSGs.[124] The Department reasoned that because Xcel is neither a party to the subscription contracts nor responsible for recruiting subscribers or closing sales of subscriptions, Xcel has no basis to track expenses related to CSG program eligibility or attorney's fees related to CSG cancellation disputes as integration costs.[125] Similarly, since the City is not a party to any interconnection agreements pending at the Slayton West substation, it should not bear the integration costs related to DER projects currently in the interconnection queue at the Slayton West substation.[126]

115. The Commission should only include integration expenses that are directly attributable to the transfer, reasonably estimated in this record, and not already accounted for in a different component of the just compensation framework.

116. The Judge recommends that the Commission include as just-compensation integration expenses the actual expense amounts incurred for Xcel's continued service integration and meter integration.

117. For the reasons articulated by the Department, the Judge recommends the Commission deny Xcel's request to track and recover expenses related to CSG program eligibility as integration costs, attorney's fees related to CSG contractual disputes, and integration costs related to DER in the interconnection queue. These costs are speculative and not reasonably estimated in this record.

D. Other appropriate factors

118. The last prong of the just compensation framework directs the Commission to consider "other appropriate factors."[127]

119. Slayton did not identify any other factors that should be incorporated.

120. Xcel identified one factor that it finds appropriate for inclusion in this category: the stranded cost related to the Slayton West (SLW) substation. The SLW

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[121] *Id.*; Ex. Xcel-207 at 38-39 (Peterson Rebuttal-Trade Secret) (Jan. 9, 2026) (eDocket No. 20261-226726-03).
[122] Ex. Slayton-106 at 31 (Berg Rebuttal).
[123] *Id.*at 31-32,
[124] Ex. DOC-302 at 13 (Teigland Surrebuttal).
[125] *Id.* at 5.
[126] *Id.* at 12-13.
[127] Minn. Stat. § 216B.45.

substation is located just outside the southwest corner of Slayton.[128] Xcel asserts the substation would become a stranded asset if Slayton exited its system.[129] After the transaction, the City plans to receive service through a different substation owned by Nobles Cooperative Electric.[130]

121. The City contends its loss of revenue calculation encapsulates any loss of actual load attributable to the Slayton West substation.[131]

122. Customers living in Slayton are served from the SLW substation, which is located just outside city limits.[132] Previously, customers in Slayton received service from an older substation with a voltage of approximately 4 kV and a capacity of 5.25 MVA.[133] In 2006, the Company determined that more capacity and upgraded voltage were needed.[134] The old Slayton substation was retired, and SLW was constructed with a voltage of 13.8 kV and a transformer capacity of 14 MVA.[135] A transformer of 14 MVA was selected because a larger transformer was needed and that was the next standard size of equipment.[136]

123. The City is not acquiring the SLW substation.[137] Xcel intends to retain full ownership and operation of the substation.[138]

124. There are three CSGs located near Slayton, which are interconnected to SLW. The gardens are located outside of Slayton City limits.[139]

125. 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.[140] 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.[141] 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.[142]

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[128] Ex. Xcel-206 at 44 (Peterson Rebuttal).
[129] *Id.* at 15-23.
[130] Ex. Xcel Energy-202, Schedule 8.
[131] Ex. Slayton-106 at 33-35 (Berg Rebuttal).
[132] Ex. Xcel-204 at 41 (Peterson Direct).
[133] Ex. Xcel-206 at 44 (Peterson Rebuttal).
[134] *Id.*
[135] *Id.*
[136] *Id.* at 45.
[137] Ex. Slayton 103 at 10 (Berg Direct).
[138] Ex. Slayton-106 at 34 (Berg Rebuttal).
[139] Ex. Xcel-204 at 36 (Peterson Direct).
[140] *Id.*
[141] *Id.*
[142] *Id.* at 42.

126. The City's consultant initially testified that SLW would be a stranded cost – although the City recommended allowing recovery of only a tiny fraction of its value.[143] In rebuttal testimony, the City retreated from its testimony that SLW was a stranded cost.[144] Instead, the City argued that SLW would actually not be stranded because solar gardens would continue to use the substation.[145]

127. CSGs are independently planned, developed, and sited by third-party developers.[146]

128. The City recommends allowing compensation of approximately $412,000, or 36% of SLW's book value.[147]

129. Xcel requests $1,131,354 as an "other appropriate factor" to compensate for the Slayton West substation (SLW), claiming that 98.8% of its book value will be stranded.[148]

130. The Department reasons that if the Slayton West substation or a similar asset becomes stranded because it primarily existed to serve Slayton, then it may be appropriate to include some portion of its net book value in just compensation.[149]

131. The Department proposes the Commission: (a) require Xcel to analyze how any allegedly stranded asset will be used after the transfer, (b) limit stranded asset recovery amount to what is not already embedded in a separate component of the just-compensation calculation.

132. No party highlights any prior case where the Commission, in determining "other appropriate factors" either included or excluded a specific partially-stranded asset. In *Rochester II*, a demand charge for past usage was considered an "other appropriate factor."[150]

133. The Department's proposed analytical framework is just and reasonable.

134. Slayton customers' ordinary responsibility for SLW substation is embedded in the "lost revenue" component of the just-compensation calculation. That component is intended to compensate Xcel for its loss of Slayton customers' contribution to its revenue requirement, the rate base for which includes the SLW substation. Just as with any other Xcel asset that Slayton will no longer use, Slayton

[143] Ex. Slayton-103 at 28 (Berg Direct) ("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 . . . .").
[144] Ex. Slayton-106 at 9 (Berg Rebuttal).
[145] *Id.* at 34.
[146] Ex. Xcel-208 at 41 (Peterson Surrebuttal).
[147] Ex. Slayton-103 at 28 (Berg Direct).
[148] Xcel Initial Br. at 84–85.
[149] Ex. DOC-301 at 13 (Ngo Rebuttal).
[150] *Rochester II*, Order Determining Compensation and Denying Motion to Dismiss at 5 (Nov. 30, 2995).

customers' ordinary total responsibility for the SLW substation is accounted for in the revenues that they would have paid to Xcel.

135. Xcel establishes that SLW is included in the Company's rates—paid for by all customers—while distribution infrastructure required for interconnecting DERs is paid for by DER applicants, not retail customers.[151] Xcel argues, therefore, that "[t]o the extent SLW is not being used to provide retail service it should not be the responsibility of [Xcel's remaining] retail customers to pay for it."

136. The stranded portion of the SLW substation is equal to the share that will not be paid for by Slayton customers through lost-revenue compensation nor paid for by DER customers.

137. The Commission should require Xcel to analyze how SLW will be used after the transfer. The Commission should further determine that the stranded portion of SLW's book value be computed consistent with these findings and paid in compensation as an "other appropriate factor." Finally, Xcel should be required to make an appropriate rate adjustment or refund to ensure that its remaining ratepayers do not continue to pay for SLW.

E. Method of Compensation

138. The parties disagree about the manner in which Slayton will pay compensation to Xcel.

139. Xcel contends that 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.[152] It also argues that lost revenue must also be a lump-sum payment (discounted to present value to account for the time difference between when the compensation is paid and when the revenues would have been received).[153] The Company asserts that the Minnesota Constitution and Minn. Stat. § 216B.45 require compensation be paid for property before it is acquired.[154] Xcel disputes that a mill rate—a rate that would be applied to Slayton customers' future usage in Slayton—would adequately secure compensation for the lost revenue, and questions what recourse Xcel would have if Slayton cannot or will not pay.

140. Xcel argues, as an alternative, that a set payment schedule would be superior to a mill rate because it would avoid uncertainty arising from departures of the number of customers or sales from the forecasts used to set the mill rate.[155]

[151] Ex. Xcel-208 at 41-42 (Peterson Surrebuttal).
[152] Xcel's Initial Br. at 87–91.
[153] *Id.* at 69–70.
[154] *Id.* at 88.
[155] *Id.* at 90–91.

141. Slayton seeks to pay using a per-kWh mill rate, a rate that would be applied to Slayton customers future usage in Slayton. To support its argument for a mill rate, Slayton cites *Rochester II* and *City of Redwood Falls*.[156]

142. The Department asserts that the appropriate method of just compensation may depend on the component. A combination approach may be the appropriate method of payment, for example, a lump-sum may be appropriate for the current value of the utility facilities – the first factor of just compensation – and a mill-rate payment may be appropriate for loss of revenue.[157]

143. The Department recommends consideration of the mill rate approach regarding the loss of revenue component of just compensation.[158] The Department suggests deriving the mill rate by dividing the ten-year present value of Xcel's net revenue loss by the ten-year present value of projected kWh sales.[159] The Department reasons this approach aligns with the Commission's orders in Minn. Stat. § 216B.44 cases, ties compensation to actual load, and reduces the risk of over- and under-compensation if actual growth differs from forecasted growth.[160]

144. In *Rochester II*, the Commission found reasonable and approved compensation in the form of a lump sum payment plus a mill rate.[161] The Commission adopted the judge's recommendation, which accounted for the four statutory factors and then separately accounted for amounts attributable to the loss of future customers. The mill rate was then used to recover only the portion of compensation attributable to the loss of future customers.[162]

145. As the judge in *Rochester II* wrote:[163]

> Timing differences and development projections have a carry-over impact on usage projections and can significantly affect the total compensation for future growth sales. The best way to avoid the uncertainties associated with the timing differences in the parties' development and usage projection is to apply a mill rate to actual kilowatt sales as they occur.

146. In *City of Redwood Falls*, the Commission stated that lost revenues are calculated and "usually converted to a per-kilowatt-hour mill rate to protect against the

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[156] *City of Redwood Falls*, Order Determining Compensation at 13–14.
[157] *See Rochester II*, Order Determining Compensation and Denying Motion to Dismiss at 11 (approving an alternative structure consisting of a lump sum for existing customers and an 11.0 mills/kWh rate for future customers, over ten years); *See also City of Redwood Falls,* Order Determining Compensation at 13–14 (setting compensation for most annexed areas at 29.7 mills/kWh "for present and future customers for a period of ten years").
[158] Ex. DOC-301 at 11 (Ngo Rebuttal).
[159] *Id.*
[160] *Id.*
[161] *Rochester II*, Order Determining Compensation and Denying Motion to Dismiss at 7, 11.
[162] *Id.*, 4.
[163] *Rochester II*, Findings of Fact, Conclusions, and Recommended Order at 22.

possibility of the baseline forecasts proving inaccurate."[164] In that proceeding, the Administrative Law Judge separately calculated lump sum payment amounts for the cost-less-depreciation of acquired property.[165]

147. It is reasonable and just for the Commission to require compensation for lost revenue be paid using a mill rate, and for the remaining compensation to be paid in a lump sum at the time of purchase.

148. Lost revenue, while a necessary component of just compensation, is not itself "property" as that term is used in Minn. Stat. § 216B.45.[166]

149. Assuming, without deciding, that lost revenue is property under Minn. Const. Art. I § 13, "[t]he fundamental doctrine that private property cannot be taken for public use without just compensation requires that compensation shall be determined as of the time of taking."[167] And,

> in the absence of a specific requirement in the constitution, compensation need not be paid or even finally determined in advance of the taking, where reasonable, certain, and adequate provision is made at the time of appropriation to ascertain and secure the compensation to be paid to the owner.[168]

150. Determining a mill rate for lost revenue appropriately makes symmetrical the risks of the lost revenue calculation's reliance on forecasts. Requiring the lost-revenue calculation be paid as a lump sum at the time of acquisition eliminates Xcel's exposure to risk of erroneous forecasts while Slayton would remain at risk of overpaying for the lost revenue.[169]

151. This concern is heightened when the forecasts being relied upon are Xcel's and the forecasts run a decade into the future, as is recommended above.

152. The Judge recommends the Commission establish just compensation in the form of a mill rate payment method for the loss of revenue component of just compensation, and a lump sum for the other components of the compensation it determines.

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[164] *City of Redwood Falls*, Order Determining Compensation at 11.
[165] *City of Redwood Falls*, Findings of Fact, Conclusions, and Recommended Order at 21 (Jan 5, 2007).
[166] Minn. Stat. § 216B.45 (describing the process for determining just compensation for utility "property operated in the municipality under [] license, permit, right, or franchise.").
[167] *Housing and Redev. Auth. of City of St. Paul v. Greenman*, 96 N.W. 2d 673, 683 (Minn. 1959).
[168] *Id.*
[169] Xcel may argue that the Minnesota Constitution requires this. But, whether a set mill rate is sufficiently "reasonable, certain, and adequate" to secure the compensation is (at least in part) a factual question for the Commission—resolution of which must necessarily contemplate the appropriate level of certainty to secure a future-revenues amount necessarily reliant on uncertain forecasts of customer counts, energy consumption, and future rate escalation. Even in the unlikely event that Slayton's population and/or electricity consumption drops to zero after the transaction, establishing a mill rate would ensure with certainty that the lost revenue paid to Xcel would more accurately reflect the lost revenue from Slayton's actual future consumption than a lump sum payment.

153. Finally, Xcel argues that if a payment schedule or a mill rate is applied, the lost revenues should not be reduced to present value before determining the schedule or mill rate. It asserts that because these payment methods eliminate the timing difference between when the lost revenues would have been received and when the Company would receive payment from Slayton, it is not appropriate to reduce the amount to present value.

154. In *Redwood Falls*, the Commission described its compensation formula under Minn. Stat. § 216B.44.[170] The formula it describes first determines the net revenue loss by subtracting avoided costs from the gross lost revenue, and then reducing the net revenue loss to present value, which "is then taken to be the net revenue loss." Then, the Commission wrote:[171]

> an additional step is almost always taken. Because of the uncertainty of future events, payment of a large lump sum at the beginning of a compensation period subjects both the existing utility and the municipality to great risk that the sales forecasts (indeed, the forecasts of customer locations) will be wrong. This risk is mitigated, to a great extent, by converting the lump sum into a per-kilowatt-hour rate, and paying compensation at this rate over the compensation period.

155. The Commission does not explain its reasons for reducing the lost-revenue amount to present value before applying the mill rate, aside from stating that it is a formula that was "developed in the course of [*Rochester I*] and has been refined and clarified" since.[172] The compensation determined in *Rochester I*, itself, does not incorporate a mill rate.[173]

156. In *Rochester II*, the Recommendation to the Commission acknowledged that—for compensation to be paid up front in a lump sum—net loss-of-revenue amounts must be discounted to present value.[174]

157. The judge in *Rochester II* also offered two compensation calculations: paid as a lump-sum, or as a partial lump-sum, plus mill rate amount. To determine the mill rate, the judge pulled out only the "future growth customers" from the compensation determination and calculated the mill rate by dividing net loss of revenue by kilowatt usage. In addition, the Judge used the average sales of the projected 10-year period for calculating the mill rate, to mitigate the unreliability of attempting to use year 10.[175]

158. The judge in *Rochester II* reasoned:

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[170] *City of Redwood Falls*, Order Determining Compensation at 3-4 (determining compensation under Minn. Stat. § 216B.44).
[171] *Id.* at 4.
[172] *Id.*
[173] *Id.* at 17.
[174] *Rochester II*, Findings of Fact, Conclusions, and Recommended Order at 9.
[175] *Id.* at 22–23.

> Use of year 10 is inappropriate for use in calculating a rate applicable to a 10-year compensation period that has been recommended in this case. Year 10 is the most distant and least reliable year to use for mill rate methodology. Inflation tends to elevate the calculated mill rate when one uses later years, although many of those effects are reduced to some extent by declining interest and depreciation expenses. Thus, the Administrative Law Judge believes that using an average of the 10 year period is appropriate to calculate a mill rate.

159. This proceeding differs from *Rochester II*. The annual net loss of revenue in Rochester II for existing customers was merely $4,750, while over the 10-year forecast period customer count was expected to increase by more than tenfold, and consumption was expected to increase by 2,500%.[176] Here, the record shows no reliable expectation of customer growth and only marginal increases in expected consumption.

160. This record offers no basis to separately calculate existing- and future-customer lost revenue and to require a lump-sum payment for existing customers. However, for the reasons articulated in *Rochester II*, the mill rate should still be calculated using the revenue forecasted for the midpoint of the lost-revenue time horizon.

161. If the Commission determines a mill rate is an appropriate form of compensation, it should not reduce the lost-revenue amount to present value prior to calculating the mill rate. In lieu of reducing the amount to present value, the mill rate should be calculated based upon revenue forecasted for the midpoint of the lost-revenue time horizon.

F. Other Issues

162. Xcel argues that Slayton does not intend to put the property it acquires to a public use, and therefore that Xcel is not obligated to sell under Minn. Stat. § 216B.45 (though it may do so voluntarily for just compensation provided). The Company asserts that Slayton is purchasing the property so it can contract with another utility, Nobles Cooperative Electric, to provide all the functions of utility service. It requests a finding consistent with its legal interpretation.

163. The City does not dispute that it intends to contract with Nobles to purchase wholesale power, procure O&M and other services, and would in other ways rely on Nobles.[177]

164. The plain language of Minn. Stat. § 216B.45 establishes that any public utility operating in a municipality under a license, permit, right, or franchise "shall be deemed to have consented to the purchase by the municipality, for just compensation,

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[176] *See Id.* at 14 (derived from the cumulative number of added customers and added kWh consumption).
[177] *See* Ex. Xcel-202, Schedules 2, 4, 7, 8 (Krug Direct) (Nov. 21, 2025) (eDocket No. 202511-225209-06).

of its property operated in the municipality under such license, permit, right, or franchise."

165. Xcel has waived its opportunity to procedurally challenge initiation of this proceeding to determine just compensation under Minn. Stat. § 216B.45. [178] Accordingly, under the plain meaning of Minn. Stat. § 216B.45, Xcel is deemed to have consented to the purchase by Slayton.

166. Minn. Stat. § 216B.45 does not make an issue of a municipality's motives or plans when it seeks to acquire utility property. Instead, it provides that the municipality "subject to the provisions of Laws 1974, chapter 429, may purchase the property upon notice to the public utility as herein provided."[179]

167. The Legislature makes an express distinction between acquisition by notice under Minn. Stat. 216B.45–.46 and an acquisition by eminent domain.[180]

168. The Commission is limited in this proceeding to determine the amount to be paid.

169. So long as Slayton complies with the Minnesota Public Utilities Act, its motives and plans are otherwise immaterial to acquisition under Minn. Stat. § 216B.45.

170. Any conclusion of law more appropriately characterized as a finding of fact is hereby adopted as such and incorporated by reference.

Based on these Findings of Fact, the Judge makes the following:

CONCLUSIONS OF LAW

1. The Commission and the Judge have jurisdiction to consider this Petition under Minn. Stat. § 216B.45 and Minn. R. 7829.1000 (2025).

2. The Commission has fulfilled all relevant procedural requirements of law or rule in initiating this proceeding.

3. Whenever the Commission is notified by the municipality or the public utility affected that the municipality has, pursuant to law, determined to purchase the property of the public utility, and that the parties to the purchase and sale have been unable to agree on the amount to be paid and received therefor, the commission shall

[178] Ex. Xcel-200 at 2 (Comments of Xcel Energy) ("Xcel Energy does not procedurally challenge the City's initiation of a proceeding before the Commission pursuant to Minn. Stat. § 216B.45. While Xcel Energy does not agree with the City's stated reason for acquiring Xcel Energy's property and service territory, the reason for a municipality's decision to acquire a utility's property and service territory is generally irrelevant under the statute; and with the City's decision made, the only issue in this proceeding is the determination of just compensation due to Xcel Energy for the taking of its property, which will affect Xcel Energy's other customers' rates across the state.").
[179] Minn. Stat. § 216B.45, *citing* 1974 Minn. Laws ch. 429, initially codified Minn. Stat. Ch. §§ 216B.01–.67 (2024) (the Minnesota Public Utilities Act).
[180] Minn. Stat. § 216B.47.

set a time and place for a public hearing, after not less than 30 days' notice to the parties, upon the matter of just compensation or the matter of the property to be purchased.[181]

4. The City has determined to purchase the property of Xcel Energy pursuant to law, and the parties have been unable to agree on the amount to be paid.

5. The Commission must therefore determine the just compensation for the property to be purchased by the municipality. In determining just compensation, the commission must consider: (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.[182]

6. The Commission should determine just compensation for the City's acquisition of Xcel's property under Minn. Stat. § 216B.45 in a manner consistent with the Findings and Conclusions in this report.

7. The text of these Findings and Conclusions governs the mathematical and computational aspects of the recommended compensation determination. The computations should be adjusted to conform to the findings and conclusions of the Report.

8. Any finding of fact more appropriately characterized as a conclusion of law is hereby adopted as such and incorporated by reference.

Based upon these Conclusions of Law, and for the reasons explained in the accompanying Memorandum, the Administrative Law Judge makes the following:

RECOMMENDATIONS

The Judge respectfully recommends that the Commission determine just compensation as follows:

1. In consideration of the original cost of property less depreciation, adopt the parties' agreement to update the calculated value at the transaction close and to provide the updated documentation including a list of the final assets, their original cost, and their accumulated depreciation at the time of the transfer, and regard this final calculation as "the original cost of the property less depreciation."

2. In consideration of the loss of revenue to the utility:

- apply a 10-year lost-revenue time horizon;
- adopt Xcel's estimates of reasonably foreseeable consumption and rate growth; and,

[181] Minn. Stat. § 216B.45.
[182] *Id.*

- determine that the lost revenue should be offset by the following avoided costs:
    - fuel and purchased power costs that vary directly with Slayton's load;
    - clearly variable O&M expenses shown to decrease when Slayton leaves; and,
    - demonstrated reductions in customer service or billing costs attributable to loss of Slayton accounts.

3. In consideration of expenses resulting from integration of facilities, include the actual expense amounts incurred for Xcel's continued service integration and meter integration.

4. In consideration of "other appropriate factors," the Commission should:

- require Xcel to analyze how the Slayton West (SLW) substation will be used after the transfer;
- determine that the stranded portion of SLW's book value be computed consistent with these findings and paid in compensation as an "other appropriate factor"; and,
- require Xcel to make an appropriate rate adjustment or refund to ensure that its remaining ratepayers do not continue to pay for SLW.

5. In addition, the Commission should determine the just compensation to be paid in the form of a mill rate payment method for the loss of revenue component, and a lump sum for the other compensation components. If the Commission determines a mill rate is an appropriate form of compensation, it should not reduce the lost-revenue amount to present value prior to calculating the mill rate. In lieu of reducing the amount to present value, the mill rate should be calculated based upon sales forecasted at the midpoint of the lost-revenue time horizon.

Dated: May 8, 2026

CHRISTA L. MOSENG
Administrative Law Judge

Reported: Transcripts prepared

NOTICE

Notice is 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. 7829.1275, .2700 (2025), unless otherwise directed by the Commission. Exceptions should be specific and stated and numbered separately. Oral argument before a majority of the Commission will be permitted pursuant to Minn. R. 7829.2700, subp. 3. 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 Administrative Law Judge's recommendations. The recommendations of the Administrative Law Judge have no legal effect unless expressly adopted by the Commission as its final order.

MINNESOTA
COURT OF ADMINISTRATIVE HEARINGS

Court of Administrative Hearings
PO Box 64620
Saint Paul, MN 55164-0620
651-361-7900
mn.gov/cah/

May 8, 2026

See Attached Service List

Re: ***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 22-2500-40870
MPUC E-002, PT-7157/ SA-25-129

To All Persons on the Attached Service List:

Enclosed and served upon you is the Administrative Law Judge's **FINDINGS OF FACT, CONCLUSIONS OF LAW, AND RECOMMENDATION** in the above-entitled matter. The Court of Administrative Hearings' file in this matter is now closed.

If you have any questions, please contact me at (651) 361-7857, nichole.sletten@state.mn.us, or via facsimile at (651) 539-0310.

Sincerely,

Nichole Sletten

NICHOLE SLETTEN
Legal Assistant

Enclosure
cc: Docket Coordinator

STATE OF MINNESOTA
COURT OF ADMINISTRATIVE HEARINGS
PO BOX 64620
600 NORTH ROBERT STREET
ST. PAUL, MINNESOTA 55164

CERTIFICATE OF SERVICE

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 E-002, PT-7157/ SA-25-129

On May 8, 2026, a true and correct copy of the **FINDINGS OF FACT, CONCLUSIONS OF LAW, AND RECOMMENDATION** was served by eService, and United States mail, (in the manner indicated on the attached service list) to the following individuals:

#	First Name	Last Name	Email	Organization	Agency	Address	Delivery Method	Alternate Delivery Method	View Trade Secret	Service List Name
1	Katherine	Arnold	katherine.arnold@ag.state.mn.us		Office of the Attorney General - Department of Commerce	445 Minnesota Street Suite 1400 St. Paul MN, 55101 United States	Electronic Service		No	25-129 Official CC Service List
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6	Sasha	Bergman	sasha.bergman@state.mn.us		Public Utilities Commission	121 7th Pl E Ste 350 St. Paul MN, 55101 United States	Electronic Service		Yes	25-129 Official CC Service List
7	Andrew	Biggerstaff	abiggerstaff@kennedy-graven.com	Kennedy & Graven, Chartered		150 S 5th St Ste 700 Minneapolis MN, 55402 United States	Electronic Service		No	25-129 Official CC Service List
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9	James	Canaday	james.canaday@ag.state.mn.us		Office of the Attorney General - Residential Utilities Division	Suite 1400 445 Minnesota St. St. Paul MN, 55101 United States	Electronic Service		No	25-129 Official CC Service List
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26	Mary	Martinka	mary.a.martinka@xcelenergy.com	Xcel Energy Inc		414 Nicollet Mall 7th Floor Minneapolis MN, 55401 United States	Electronic Service		No	25-129 Official CC Service List
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29	Christian	Noyce	christian.noyce@state.mn.us		Public Utilities Commission	759 Hague Ave St Paul MN, 55104 United States	Electronic Service		No	25-129 Official CC Service List
30	Generic Notice	Residential Utilities Division	residential.utilities@ag.state.mn.us		Office of the Attorney General - Residential Utilities Division	1400 BRM Tower 445 Minnesota St St. Paul MN, 55101-2131 United States	Electronic Service		Yes	25-129 Official CC Service List
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34	Joshua	Weir	jweir@kennedy-graven.com	Kennedy & Graven, Chartered		150 S Fifth St Ste 700 Minneapolis MN, 55402 United States	Electronic Service		No	25-129 Official CC Service List