

PUBLIC DOCUMENT – NOT  
PUBLIC DATA HAS BEEN EXCISED

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

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

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

**In the Matter of the Application of  
Northern States Power Company, d/b/a  
Xcel Energy for Authority to Increase  
Rates for Electric Service in the State of  
Minnesota**

CAH File No. 28-2500-40515

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

**INITIAL BRIEF OF THE MINNESOTA  
DEPARTMENT OF COMMERCE**

January 28, 2026

**TABLE OF CONTENTS**

INTRODUCTION .....1

FACTS .....1

ARGUMENT .....10

I. XCEL’S CURRENT CAPITAL STRUCTURE AND RETURN ON EQUITY ARE SUFFICIENT TO MAINTAIN THE COMPANY’S FINANCIAL INTEGRITY AND ATTRACT CAPITAL. ....12

    A. In Determining the Appropriate Rate of Return, the Commission Must Balance the Interests of Xcel’s Investors and Its Ratepayers. ....12

    B. The Commission Should Approve Xcel’s Proposed Capital Structure and Cost of Debt, Subject to Xcel Providing Quantitative Support for Its Capital Structure Proposals in Future Rate Cases. ....14

    C. The Department’s Proposed Proxy Group of Rate-Regulated Utilities Is a Reasonable Group of Comparable Companies for Estimating Xcel’s Cost of Equity.....16

    D. The Department’s Multi-Stage Discounted Cash Flow Model Is Transparent, Is Objective, and Incorporates Reasonable Assumptions.....17

    E. The Commission Should Adopt the Department’s Recommended ROE. ....24

    F. The Record Does Not Support Xcel’s Recommended ROE of 10.3%. ....29

    G. The Commission Should Adopt the Department’s Proposed Rate of Return. ....36

II. THE COMMISSION SHOULD ADOPT THE DEPARTMENT’S ADJUSTMENTS REDUCING XCEL’S INFLATED AND UNSUPPORTED RATE BASE AND OPERATING REVENUES AND EXPENSES. ....37

    A. Insurance Premium Expense Should Be Set Using Historical Averages to Smooth Out the Large and Unpredictable Fluctuations in Expenses. ....38

    B. Xcel Has Failed to Establish that Its Inflated Compensation and Benefits Proposals Are Necessary to Deliver Reliable Service to Customers. ....43

    C. Depreciation Expense Should Match the Operating Lives Approved by the Commission. ....56

    D. Xcel Should Bear the Adverse Consequences of Its Power Plant Outages. ....59

PUBLIC DOCUMENT – NOT  
PUBLIC DATA HAS BEEN EXCISED

E.	Because Xcel’s Interest in the Prepaid Pension Asset Lacks Value, the Commission Should Either Deny Xcel a Return or Significantly Limit It. ....	61
F.	The Commission Should Continue Requiring Xcel to Set its General Allocator Using FTEs Instead of the Number of Employees. ....	65
G.	Xcel’s Distribution Vegetation Management Budget is Inflated and Lacks Record Support. ....	67
H.	Outside Services Should Reflect Recent Actual Expenses and Reasonable Increases in Costs.....	68
I.	Property Tax Expenses Should Be Set Using Historical Averages Because Year-to-Year Changes Vary Significantly and Unpredictably. ....	70
J.	Minnesota Customers Should Not Subsidize Xcel’s Indirect Wildfire Costs Incurred Elsewhere. ....	73
K.	Transmission O&M Expenses Should Reflect the Consistent Year-Over-Year Decline in Xcel’s Expenses.....	74
L.	Xcel Should Be Required to Provide Support for Incremental Internal Labor Costs in the Coal Combustion Residuals Expenses Tracker. ....	76
M.	Xcel’s Rates Should Reflect a Representative Level of Liquidated Damage Payments. ....	77
N.	Ratepayers Should Not Bear the Entire Expense of Xcel’s Board of Directors.....	78
O.	The Commission Should Require Xcel to Use the Most Up-to-Date Interchange Agreement Allocator.....	79
III.	THE DEPARTMENT’S CCOSS RANGE, REVENUE APPORTIONMENT, AND RATE DESIGN APPROPRIATELY BALANCE COMPETING RATE DESIGN PRINCIPLES AND RESULT IN AN EQUITABLE RATE STRUCTURE. ....	81
A.	The Commission Should Rely on the Department’s CCOSS Recommendation as a Reasonable Starting Position for Rate Design.....	81
B.	The Commission Should Adopt the Department’s Revenue Responsibility Apportionment and Rate Design Recommendations.....	86
	CONCLUSION.....	93

## INTRODUCTION

Northern States Power Minnesota d/b/a Xcel Energy is prospering under its current electric rates set less than three years ago. Yet the company asks the Minnesota Public Utilities Commission to sanction a 9.4% rate increase (\$344.3 million) for 2025 and a 3.3% increase (\$129.4 million) for 2026.<sup>1</sup> The Commission should deny Xcel’s outsized and unsupported proposal. Xcel needs far less to deliver safe and reliable service and fairly compensate investors. Approving Xcel’s proposal would simply compound the financial hardship that residential and business customers are already enduring after more than a decade of rate increases.

At a minimum, the Commission should significantly limit Xcel’s rate increase by fully adopting the Minnesota Department of Commerce’s recommendations. The Department’s recommendations would annually reduce Xcel’s proposal by about \$267 million – helping to prevent Xcel from unnecessarily profiting off ratepayers. In addition to denying Xcel a windfall, the Commission should modify Xcel’s rate design proposals to prevent rate shock. Only with these significant adjustments to Xcel’s proposal can the Commission ensure that rates will be just and reasonable.

## FACTS

### *Xcel Energy*

As shown in the figure below, Xcel Energy, Inc. (“XEI”) is a public utility holding company with several subsidiaries.<sup>2</sup> One of its operating companies is Northern States Power Minnesota (“NSPM”) which is an electric and natural gas utility operating in Minnesota and the Dakotas. NSPM has more than 1.5 million electric customers in these three states.<sup>3</sup> Another

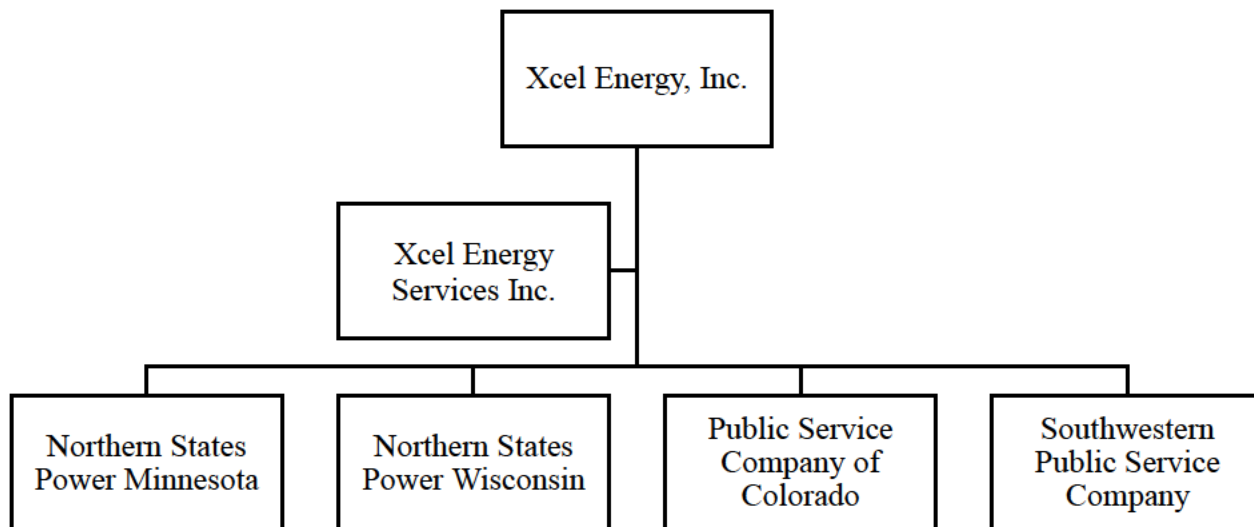
---

<sup>1</sup> Unless otherwise noted, this brief uses “Xcel” to refer to the Minnesota jurisdiction of Northern States Power Company.

<sup>2</sup> Ex. DOC-1 at 19 (Johnson Direct).

<sup>3</sup> *Id.*

subsidiary, Northern States Power Wisconsin, operates in Wisconsin and Michigan.<sup>4</sup> XEI also has subsidiaries located in Colorado, Public Service Company of Colorado; and in New Mexico and Texas, Southwestern Public Service Company.<sup>5</sup> These various subsidiaries all do business as Xcel Energy.<sup>6</sup> To support these operating companies, XEI maintains a service company, Xcel Energy Services Inc., (“XES”) that provides shared administrative, managerial, and support services.<sup>7</sup>



***Ratemaking Principles***

A rate case is a proceeding to determine whether the overall rates paid by customers require adjustment based on changes to the utility’s “revenue requirement” since its last rate case.<sup>8</sup> A revenue requirement is the approximate amount of money that a utility needs to collect from customers to pay all costs of service, including a reasonable return for its investors.<sup>9</sup> A revenue

---

<sup>4</sup> *Id.*

<sup>5</sup> *Id.*

<sup>6</sup> *Id.*

<sup>7</sup> Ex. Xcel-9 at 2–3 (Appl. Vol. 5, Budget Documentation).

<sup>8</sup> Ex. DOC-1 at 6 (Johnson Direct); Minn. R. 7825.3100, subp. 6 (2023).

<sup>9</sup> Ex. DOC-1 at 6 (Johnson Direct).

PUBLIC DOCUMENT – NOT  
PUBLIC DATA HAS BEEN EXCISED

requirement has three main components: “rate base” multiplied by a “rate of return” plus the net difference between “operating revenues and expenses.”<sup>10</sup>

Rate base and operating revenues and expenses frequently change as utilities operate their businesses.<sup>11</sup> Because rate base and operating revenues and expenses are subject to frequent change, the Commission evaluates the utility’s financial needs based on a representative “test year,” which is a recent or forecasted twelve-month period.<sup>12</sup> The test year is intended to provide a reasonable snapshot of the utility’s operations.<sup>13</sup> Using the test year, the Commission’s evaluation includes a detailed review of financial factors affecting utility operations.<sup>14</sup>

Because the test year only provides a snapshot, the utility’s investors benefit from increased profits when the utility’s actual expenses are less than expected.<sup>15</sup> If actual expenses are higher than expected, then the utility has to accept less profit, operate more efficiently, or increase sales.<sup>16</sup> When it is no longer tenable for the utility to provide service under its existing rate structure, the utility can file a new rate case to initiate a holistic review of its financial needs.<sup>17</sup> This delay between rate proceedings—called “regulatory lag”—is an important feature of utility ratemaking. A reasonable level of lag protects ratepayers when the utility acts inefficiently or makes wrong guesses. Lag also benefits utilities by allowing them to earn higher profits from superior

---

<sup>10</sup> Ex. DOC-1 at 6 (Johnson Direct); Joel B. Eisen et al, *Energy, ECONOMICS, AND THE ENVIRONMENT* 457 (4th ed. 2015); Jonathan A. Lesser and Leonardo R. Giacchino, *FUNDAMENTAL OF ENERGY REGULATION* 63 (2d ed. 2013).

<sup>11</sup> Ex. DOC-1 at 8 (Johnson Direct).

<sup>12</sup> Minn. R. 7825.3100, subp. 17 (2023).

<sup>13</sup> Ex. DOC-1 at 8–9 (Johnson Direct).

<sup>14</sup> *Id.*

<sup>15</sup> *Id.* at 9.

<sup>16</sup> *Id.*

<sup>17</sup> *Id.* at 9–10.

performance.<sup>18</sup> In short, this framework mimics market competition by forcing the utility to compete with the test-year version of itself to maximize profit.<sup>19</sup>

### ***Multi-Year Rate Plans***

In Minnesota, utilities can apply for rate increases with multi-year rate plans (“MYRPs”). These plans incorporate annual increases over several years, ranging from two to five years.<sup>20</sup> Proponents suggest that MYRPs incentivize efficient utility management by incrementally increasing rates based “on cost forecasts, industry cost trends or both, rather than the utility’s specific costs.”<sup>21</sup> Proponents theorize that giving the utility a step increase (e.g., 1.5% a year for three years) while preventing the utility from filing new rate cases during the MYRP’s term and allowing the utility to profit from sound decision-making incentivizes efficient management.<sup>22</sup> The MYRP model is supposed to give the utility predictable increases for a moderate time period while forcing the utility to live within its means.

Contrary to the MYRP model’s theoretical benefits, Xcel’s use of MYRPs has neither decreased the frequency of Xcel’s rate case filings nor fostered reasonable levels of regulatory lag. Since 2013, when it began using MYRPs, Xcel has continued to file new rate case applications every two years – the same filing rate as before.<sup>23</sup> The only difference is that Xcel is now receiving annual rate increases, because of the MYRP mechanism, eliminating beneficial regulatory lag.<sup>24</sup>

---

<sup>18</sup> Alfred Kahn, *THE ECONOMICS OF REGULATION: PRINCIPLES AND INSTITUTIONS* 48 (1988).

<sup>19</sup> Ex. DOC-1 at 10 (Johnson Direct).

<sup>20</sup> *Id.* at 14; Minn. Stat. 216B.16, subd. 19 (2024).

<sup>21</sup> Ex. DOC-1 at 16 (Johnson Direct); Mark Lowry et al, *State Performance-Based Regulation Using Multiyear Rate Plans for U.S. Electric Utilities* at 3.8 (2017).

<sup>22</sup> Ex. DOC-1 at 16 (Johnson Direct).

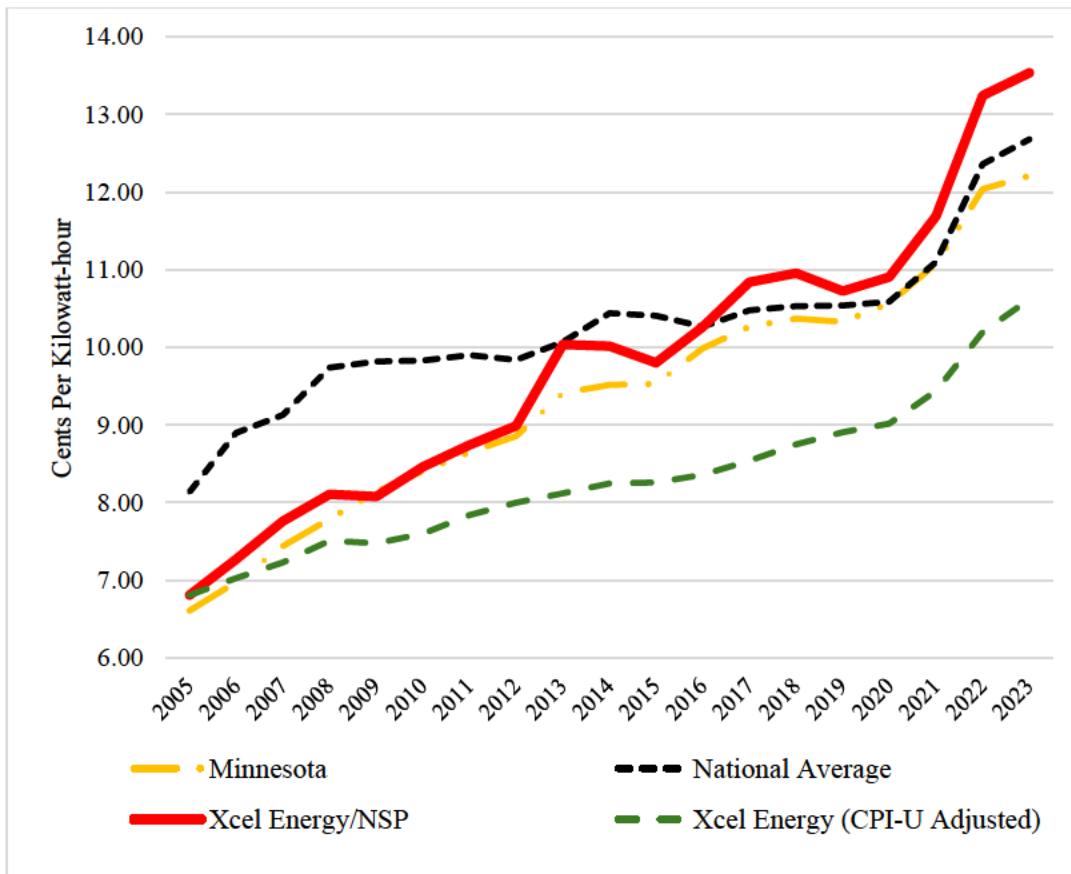
<sup>23</sup> *Id.* at 20.

<sup>24</sup> *Id.*

***Rising Rates Since 2005***

Since 2005, Xcel has experienced significant rate growth. As shown below, Xcel’s rates have increased 98% since 2005, nearly double the inflation rate of the same period.<sup>25</sup> By 2023, Xcel’s rates were nearly 3.5 cents and 5.5 cents higher than Minnesota Power’s and Otter Tail Power’s rates respectively.<sup>26</sup>

**Xcel’s Minnesota Electric Rates Since 2005<sup>27</sup>**



Xcel’s rates also have grown faster than those of similar utilities nationally. As shown below, Xcel’s rates have increased by the fourth-highest percentage among its self-identified peer utilities

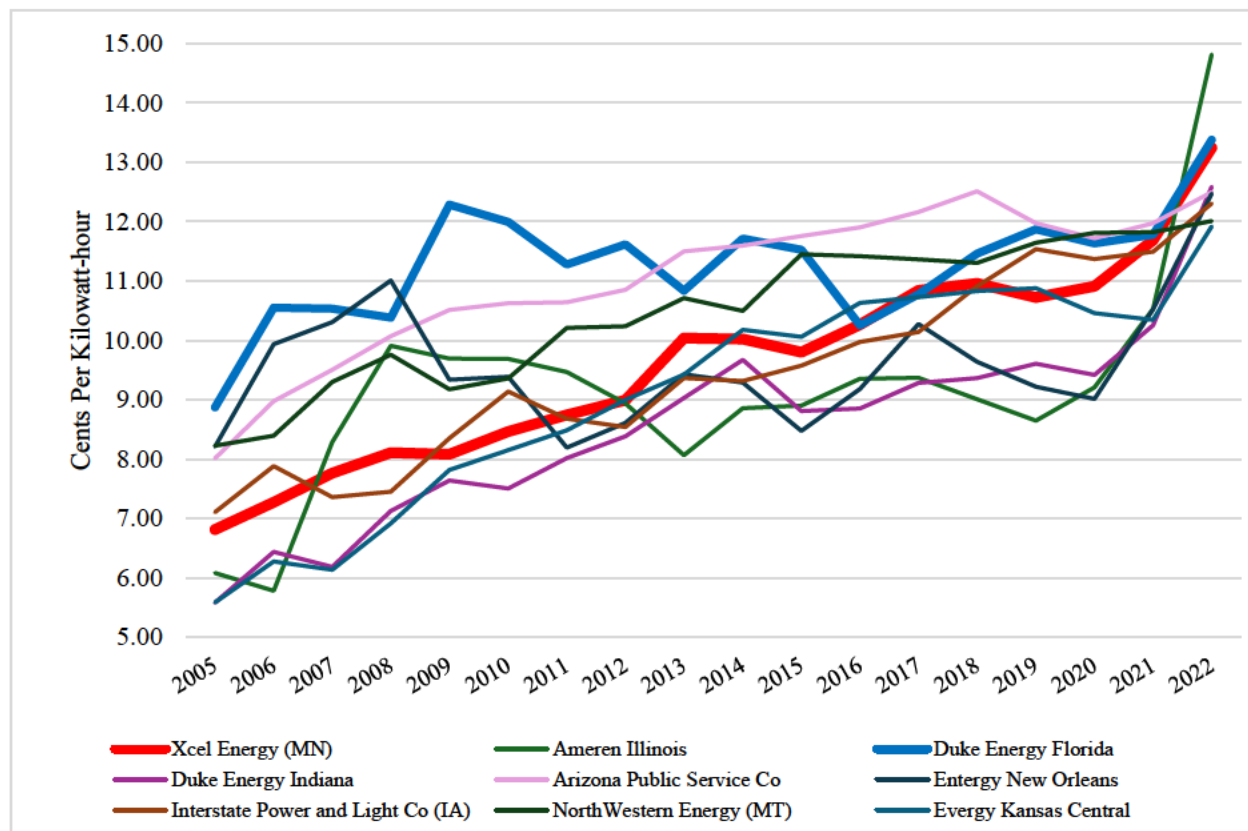
<sup>25</sup> *Id.* at 22.

<sup>26</sup> Ex. DOC-1, MAJ-D-3 at 1 (Johnson Direct).

<sup>27</sup> *Id.*

since 2005.<sup>28</sup> Xcel’s 13.54 cents per kilowatt-hour rate in 2023 (the most recent data at the time of direct testimony) was among the highest relative to its peer utilities.<sup>29</sup>

**Xcel’s Electric Rates Relative to Peer Utilities<sup>30</sup>**



A key driver of Xcel’s rising rates has been aggressive rate-increase requests. The size of its rate increases has escalated since it started filing MYRPs, even as the rate of rate case filings remains largely unchanged: the 2013 MYRP resulted in a 5.9% increase, the 2015 MYRP resulted in an 8.1% increase, while the 2021 MYRP resulted in a 9.6% increase. By contrast, the largest rate increase in the four prior traditional rate cases was 5.5%.<sup>31</sup>

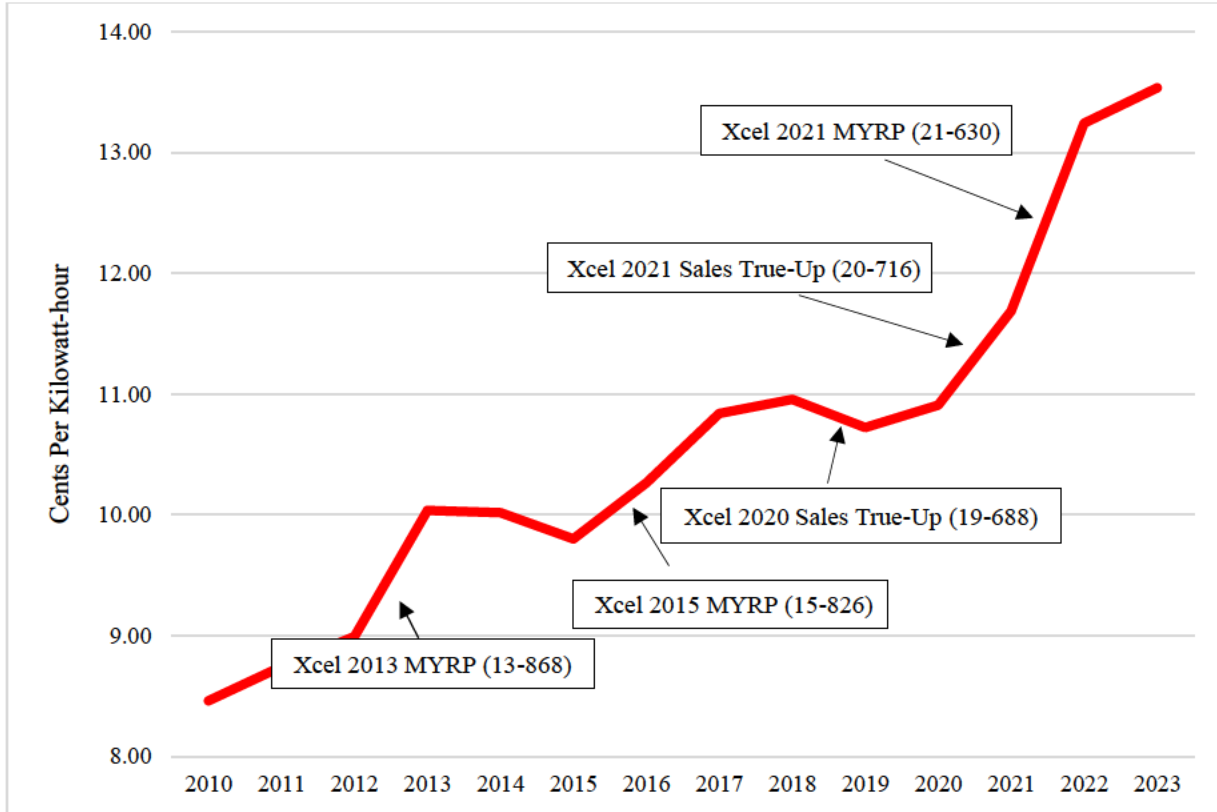
<sup>28</sup> Ex. DOC-1 at 22 (Johnson Direct).

<sup>29</sup> Annual Electric Power Industry Report, Form EIA-861 data for 2024 was not released until October 2025.

<sup>30</sup> Ex. DOC-1, MAJ-D-3 at 4 (Johnson Direct).

<sup>31</sup> Ex. DOC-1 at 24 (Johnson Direct).

**Xcel's Minnesota Electric Rates: 2010 to 2023<sup>32</sup>**



***Xcel's Financial Health***

Benefitting from rising rates in Minnesota, Xcel has prospered financially. Since its last rate case, Xcel has routinely issued new debt and equity at favorable rates. In early 2024, for example, NSPM issued \$700 million in debt at rates favorable to comparable utilities, while XEI successfully issued \$1.2 billion in new equity later in the year.<sup>33</sup> In April 2025, NSPM again issued \$1.1 billion in debt at expected rates.<sup>34</sup>

Despite these new debt and equity issuances, Xcel's credit ratings have either improved or remained stable since at least June 2023. Fitch Ratings, for example, assigned an "A+ rating" to

<sup>32</sup> Ex. DOC-1, MAJ-D-3 at 4 (Johnson Direct) (Proxy Group Tab).

<sup>33</sup> Ex. Xcel-20 at 18 (Wehner Direct); Evid. Hrg. Tr. Vol. 1 at 43 (Wehner).

<sup>34</sup> Ex. Xcel-21 at 6 (Wehner Rebuttal).

NSPM’s \$700 million debt issuance in February 2024.<sup>35</sup> Fitch further concluded that NSPM’s long-term issuer rating remained stable at an “A- Rating.”<sup>36</sup> And then again, in October 2025, Fitch revised XEI’s credit outlook from negative to stable.<sup>37</sup>

Consistent with its strong credit profile, broad metrics establish Xcel’s profitability. Between 2010 and 2024, XEI’s earnings per share attributable to NSPM increased 135%.<sup>38</sup> And most recently from 2023 to 2024, Xcel similarly saw its net income increase approximately \$220 million.<sup>39</sup> Then in October 2025, just as Xcel was claiming to the Commission it faced “substantial risk” in connection with its 2026 interim revenue deficiency, its stock reached a record high of \$83 per share.<sup>40</sup>

### ***Customer Experience***

Customers have paid for Xcel’s financial success. Xcel’s rates for industrial customers are now 13% above the national average.<sup>41</sup> Similarly, about 13% of Xcel’s residential customers now spend more than 6% of their income— a standard for threshold for excessive energy burden – on energy costs.<sup>42</sup> This has led to a spike in utility disconnections. As shown in the figure below, Xcel disconnected more than 52,000 residential customers in 2024, which was more than double the year before, and roughly double the number of disconnections conducted in – the previous record year – 2015.<sup>43</sup>

---

<sup>35</sup> Evid. Hrg. Tr. Vol. 1 at 43 (Wehner).

<sup>36</sup> *Id.*

<sup>37</sup> *Id.* at 44.

<sup>38</sup> Ex. DOC-1 at 25 (Johnson Direct).

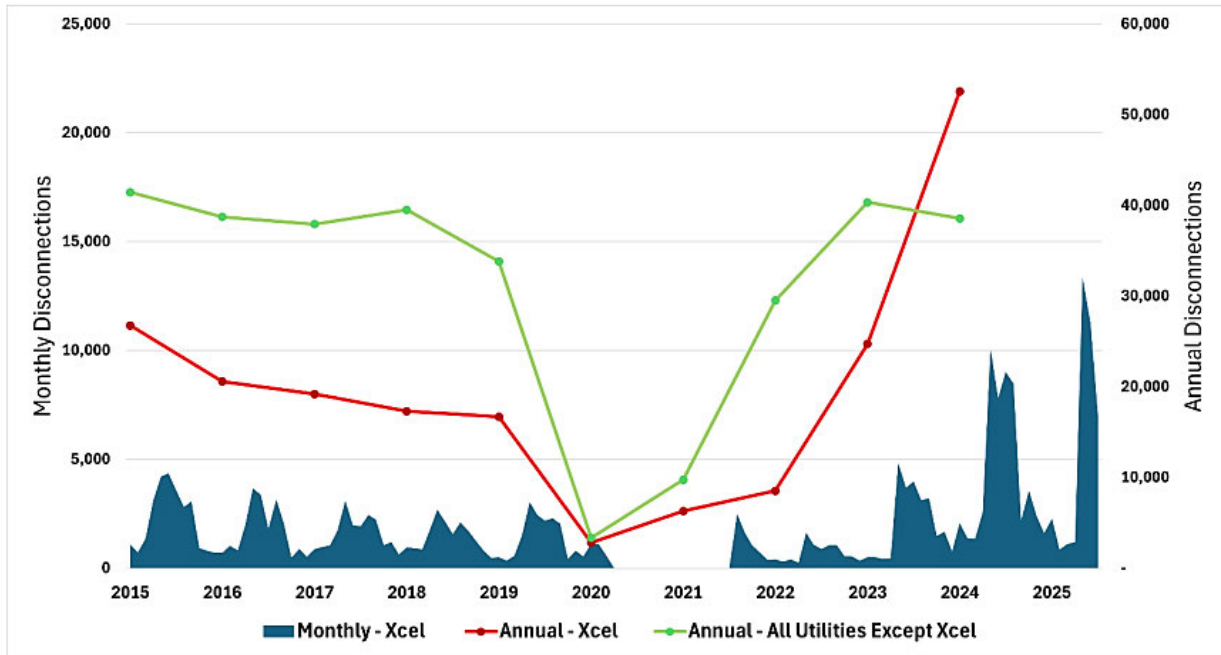
<sup>39</sup> Ex. DOC-26 at 49 (Xcel Energy, Inc.’s 2024 Form 10-K showing that Xcel’s net income was \$1.9 billion in 2024 compared with \$1.7 billion in 2024).

<sup>40</sup> *Compare* Xcel Letter at 1 (Oct. 1, 2025) (eDocket no. [202510-223492-01](#)), *with* Ex. DOC-27 at 2 (DOC Request 3118).

<sup>41</sup> Ex. XLI-3 at 32 (Ly Direct).

<sup>42</sup> Ex. JIN-2 at 31 (Chan Direct).

<sup>43</sup> Ex. CUB-3 at 1011 (Levenson-Falk Direct).



Beyond rising rates, other customers report declining service. An association of commercial customers, for example, complained that their members had experienced delayed and inaccurate invoices, misapplied payments, disconnection notices, and failure to account for net metering since at least 2022.<sup>44</sup> Some errors were extreme, such as a \$37.4 million bill and multi-month delays causing cash flow disruptions.<sup>45</sup>

***Xcel’s Current Rate Case Proposal***

Xcel filed this multiyear rate case in 2024. As revised in supplemental direct testimony, in total Xcel seeks a \$473.6 million or 12.7% increase.<sup>46</sup> This represents a \$344.3 million (9.4%) increase for 2025 and \$129.4 million (3.3%) for 2026.<sup>47</sup> The largest driver of this proposed rate increase is Xcel’s claimed entitlement to a 10.3% return on equity. This change from its current

<sup>44</sup> BOMA Greater Mpls. Pub. Cmt. at 1 (July 2, 2025) (eDocket no. [20257-220649-01](#)).

<sup>45</sup> *Id.*

<sup>46</sup> Ex. Xcel-18, BCH-D-2 (Halama Supplemental Direct).

<sup>47</sup> NOTICE AND ORDER FOR HEARING at 1 (Dec. 30, 2024) (eDocket no. [202412-213391-01](#)).

PUBLIC DOCUMENT – NOT  
PUBLIC DATA HAS BEEN EXCISED

9.25% return on equity alone would increase rates by about \$103.4 million annually.<sup>48</sup> This is unlikely to be Xcel’s last rate increase in the near term. Xcel will likely apply for a new rate increase in late 2026, using a 2027 test year.<sup>49</sup> That would mark the company’s third rate-case application in five years, with related rate increases occurring each year.<sup>50</sup>

**ARGUMENT**

Although rate cases, including this one, are often litigated as a collection of various discrete financial, revenue apportionment, and rate design issues, this is a matter of convenience, not legal necessity. The Commission’s sole obligation is to set a rate with a non-confiscatory net effect.<sup>51</sup> Xcel, in turn, has the burden to demonstrate that every cent of its proposed rates are necessary resources to deliver “adequate, efficient, and reasonable service” to its captive customers.<sup>52</sup> While the Commission should consider the merits of the disputed sub-issues, it should not lose sight of its overall obligation to grant Xcel only the minimum necessary to deliver safe, reliable service and compensate investors.

Xcel is only entitled to a non-confiscatory rate.<sup>53</sup> A rate is confiscatory only when the utility establishes with specific information that the “total effect” of the Commission’s order jeopardizes the utility’s financial integrity, either by leaving it with insufficient operating capital or by

---

<sup>48</sup> Ex. Xcel-25 at 6 (Nowak Rebuttal); Ex. DOC-1 at 43 (Addonizio Direct).

<sup>49</sup> Ex. DOC-1 at 27 (Johnson Direct).

<sup>50</sup> *Id.*

<sup>51</sup> *Fed. Power Comm’n v. Nat. Gas Pipeline Co. of Am.*, 315 U.S. 575, 585 (1942).

<sup>52</sup> Minn. Stat. § 216B.16, subd. 4 (2024) (“The burden of proof to show that the rate change is just and reasonable shall be upon the public utility seeking the change.”); Minn. R. 1400.7300, subp. 5 (2023); *In re Pet. of N. States Power Co. for Auth. to Change Its Schedule of Rates for Elec. Serv. in Minn.*, 416 N.W.2d 719, 726 (Minn. 1987) (*N. States Power*); see also *In re Appl. of Interstate Power Co. for Auth. to Increase Its Rates for Elec. Serv. in the State of Minn.*, 500 N.W.2d 501, 504 (Minn. Ct. App. 1993) (“A petitioning utility has the burden of proving to the [Commission] that its proposed assets and revenue requirements are accurate, just, and reasonable[.]”).

<sup>53</sup> *Fed. Power Comm’n*, 315 U.S. at 585.

PUBLIC DOCUMENT – NOT  
PUBLIC DATA HAS BEEN EXCISED

impeding its ability to raise future capital.<sup>54</sup> In evaluating whether the “total effect” of the rate order is confiscatory, courts consider whether the rate enables the utility to operate successfully, maintain its financial integrity, attract capital, and compensate investors for the business risk assumed.<sup>55</sup> Courts also consider the relative size of the denial to the utility’s overall rate base and authorized revenues.<sup>56</sup> This standard reflects the reality that ratemaking requires pragmatic adjustments to reach a final result that is just and reasonable for both the utility and its customers.<sup>57</sup>

Applying this stringent standard, the Commission should be skeptical of Xcel’s request to increase rates by nearly a half billion dollars. Despite a record share price, the largest component of Xcel’s rate proposal is a \$103.4 million profit increase. And beyond imposing hefty increases to inflate investor profit, Xcel seeks increases to fund pricey compensation and benefit programs for executives, subsidize operations in other jurisdictions through cost-allocator gimmicks, goldplate its system with costly and unnecessary technology, and avoid responsibility for costly power plant outages. As the Commission weighs the necessity of Xcel’s proposals, it should account for Xcel’s continued financial success since its last rate case increase in June 2023 and continued ability to meet customer and investor needs under its current rate structure. Above all, the Commission should avoid awarding Xcel a needless windfall at customer expense. As outlined below, the Commission should deny at least half of Xcel’s proposed rate increase by adopting the Department’s recommended financial adjustments and by modifying the company’s proposed revenue apportionment and rate design.

---

<sup>54</sup> *In re Request for Serv. in Qwest’s Tofte Exch.*, 666 N.W.2d 391, 398 (Minn. Ct. App. 2003) (citing *Duquesne Light Co. v. Barasch*, 488 U.S. 299, 310 (1989)).

<sup>55</sup> *Fed. Power Comm’n v. Hope Nat. Gas Co.*, 320 U.S. 591, 605 (1944).

<sup>56</sup> *Duquesne Light Co.*, 488 U.S. at 310.

<sup>57</sup> *Fed. Power Comm’n v. Nat. Gas Pipeline Co. of Am.*, 315 U.S. 575, 585 (1942); *Minnegasco v. Minn. Pub. Utils. Comm’n*, 549 N.W.2d 904, 908 (Minn. 1996).

**I. XCEL’S CURRENT CAPITAL STRUCTURE AND RETURN ON EQUITY ARE SUFFICIENT TO MAINTAIN THE COMPANY’S FINANCIAL INTEGRITY AND ATTRACT CAPITAL.**

The Commission should maintain Xcel’s existing return on equity (“ROE”) of 9.25% and capital structure. Since its last rate case was completed in June 2023, Xcel’s current ROE and capital structure have allowed the company to thrive financially. Quantitative analyses, independent estimates, and professional surveys all demonstrate that Xcel’s current ROE likely exceeds the return necessary to attract capital from investors, rendering it conservative in the company’s favor. In contrast, Xcel failed to prove by a preponderance of the evidence that its proposal to increase its authorized ROE to 10.3% – a more than \$103.4 million annual increase – is necessary to ensure adequate access to capital or maintain its financial integrity.<sup>58</sup> Nor is it supported by objective analysis. Instead, Xcel’s witness used outcome determinative modeling inputs to bias his results – consistent with both his own and Xcel’s financial interests.

**A. In Determining the Appropriate Rate of Return, the Commission Must Balance the Interests of Xcel’s Investors and Its Ratepayers.**

To determine just and reasonable rates, the Commission must consider, among other things, the utility’s need to earn a fair and reasonable return on its investment in “property used and useful in rendering service to the public.”<sup>59</sup> The rate of return (“ROR”) includes both the cost of long-term and short-term debt and ROE. The ROR also includes a determination of a reasonable ratio of each type of financing the utility uses—referred to as the utility’s capital structure. The ROR must account for capital structure because the cost of financing varies with the type of financing, with equity being the most expensive.<sup>60</sup>

---

<sup>58</sup> *Caprice v. Gomez*, 552 N.W.2d 753, 757 (Minn. Ct. App. 1996); Minn. R. 1400.7300, subp. 5 (2023).

<sup>59</sup> Minn. Stat. § 216B.16, subd. 6.

<sup>60</sup> Ex. DOC-12 at 9 (Addonizio Direct).

PUBLIC DOCUMENT – NOT  
PUBLIC DATA HAS BEEN EXCISED

Fundamentally, determining just and reasonable rates involves balancing investor and consumer interests.<sup>61</sup> Determining the utility’s ROR, and particularly the ROE component, is typically one of the most highly disputed aspects of a rate case. ROE has a substantial financial effect on the utility’s revenue requirement and therefore on what consumers must pay. In this case, each additional basis point (0.01%) of authorized ROE adds approximately \$985,000 to Xcel’s revenue deficiency.<sup>62</sup>

In addressing reasonable returns for utilities, the U.S. Supreme Court has explained that utilities should be permitted to earn a return equal to investments with corresponding risks and uncertainties.<sup>63</sup> But a public utility has “no . . . right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures.”<sup>64</sup> The ROR for a public utility is not static and does not increase with every rate case. As the Court explained, “[a] rate of return may be reasonable at one time and become too high or too low by changes affecting opportunities for investment, the money market and business conditions generally.”<sup>65</sup> Although it has become common for state commissions to rely to a greater or lesser degree on the results of cost of equity models to set a utility’s ROR, state commissions need not use any particular methodology to determine the ROR. Rather, determining a ROR consistent with *Hope* and *Bluefield* requires applying pragmatic judgment to the facts.<sup>66</sup>

---

<sup>61</sup> *Hope*, 320 U.S. 591 at 603; see also *Hibbing Taconite Co. v. Minn. Pub. Serv. Comm’n*, 302 N.W.2d 5,10 (Minn. 1980) (“[T]he PSC must balance the interests of the utility against the interests of the utility’s customers.”)

<sup>62</sup> Ex. DOC-1 at 43 (Addonizio Direct).

<sup>63</sup> *Hope*, 320 U.S. 591; *Bluefield Water Works & Improvement Co. v. Pub. Serv. Comm’n of W. Va.*, 262 U.S. 679 (1923).

<sup>64</sup> *Bluefield*, 262 U.S. at 692–93.

<sup>65</sup> *Id.*

<sup>66</sup> *Hope*, 320 U.S. 591, 602 (1944), quoting *Fed. Power Comm’n v. Nat. Gas Pipeline Co.*, 315 U.S. 575 (1942); see also *Bluefield*, 262 U.S. at 690.

PUBLIC DOCUMENT – NOT  
PUBLIC DATA HAS BEEN EXCISED

Affordability must be high on the list of pragmatic concerns guiding the Commission. Energy affordability is a critical public concern, especially given current economic conditions. Approximately 13% of Xcel customers are overly burdened by high energy bills.<sup>67</sup> And customer service disconnections for nonpayment reached record highs in 2024.<sup>68</sup> Balanced against the consumer interest in affordability is the utility's interest as defined by two objectives. A utility's authorized ROR must be sufficient to: (1) maintain access to credit and financial integrity; and (2) attract capital, commensurate with returns being earned on other investments having equivalent risks.<sup>69</sup> Still, because the authorized ROR directly impacts what consumers must pay for service, setting an ROR that exceeds what is necessary to achieve these objectives is contrary to the public interest in not paying more than is just and reasonable.<sup>70</sup> Ultimately, determining just and reasonable rates requires balancing the investors' and consumers' interest.<sup>71</sup> As outlined below, that balance should cause the Commission to maintain Xcel's existing capital structure and ROE.

**B. The Commission Should Approve Xcel's Proposed Capital Structure and Cost of Debt, Subject to Xcel Providing Quantitative Support for Its Capital Structure Proposals in Future Rate Cases.**

Xcel proposes maintaining its existing capital structure. It also proposes long-term and short-debt cost rates. The Commission should approve Xcel's proposed capital structure shown below, including its proposed costs of debt. But in future rate proceedings, the Commission should

---

<sup>67</sup> Ex. JIN-2 at 31 (Chan Direct).

<sup>68</sup> Ex. CUB-3 at 10–11 (Levenson-Falk Direct).

<sup>69</sup> *Hope*, 320 U.S. at 603.

<sup>70</sup> See Minn. Stat. § 216B.01 (2024) (declaring it to be in the public interest for utilities to be regulated in order to provide retail customers with adequate and reliable service at reasonable rates); 216B.03 (2024) (rates must be just and reasonable with any doubt resolved in favor of the consumer).

<sup>71</sup> *Hope*, 320 U.S. at 603; *Hibbing Taconite*, 302 N.W.2d at 10.

require Xcel to provide quantitative analysis demonstrating that its capital structure is cost minimizing.<sup>72</sup>

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

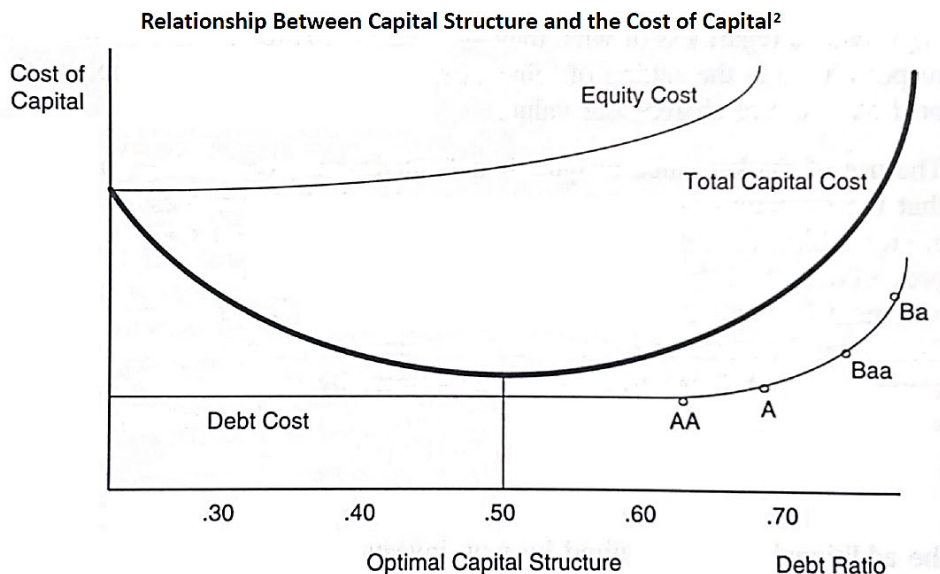
In this case, Xcel failed to provide adequate support for its high equity ratio. Rather than establishing that its proposed capital structure minimizes costs, Xcel provided anecdotes of how its existing capital structure – which it proposes to continue – reduced borrowing costs for specific debt issuances.<sup>73</sup> But in these discussions, Xcel did not address whether the borrowing costs plus the equity costs that it incurred to secure the favorable rate were less than paying more borrowing costs, but less in equity costs.<sup>74</sup> Put differently, Xcel did not address the trade-offs between the uses of debt and equity, or where its proposed capital structure falls on the total capital cost line shown in the chart below.<sup>75</sup>

<sup>72</sup> Ex. DOC-12 at 32 (Addonizio Direct).

<sup>73</sup> Ex. DOC-12 at 23–24 (Addonizio Direct).

<sup>74</sup> *Id.* at 24–25.

<sup>75</sup> *Id.* at 12, 24.



Although Xcel did not establish that its proposed capital structure minimizes cost, the Department did not recommend an alternative capital structure.<sup>76</sup> The Department reasoned that Xcel had used its proposed capital structure for many years, and that the Commission had approved its use dating to 2008.<sup>77</sup> Rather than making an adjustment, the Commission should instead consider Xcel's high-equity ratio when setting its authorized ROE.<sup>78</sup>

The Commission should also approve Xcel's proposed short-term and long-term debt costs. In this case, the Department concluded, with only minor concerns, that Xcel's proposals were reasonable.<sup>79</sup>

**C. The Department's Proposed Proxy Group of Rate-Regulated Utilities Is a Reasonable Group of Comparable Companies for Estimating Xcel's Cost of Equity.**

One standard method for estimating the cost of equity of a private company like Xcel is to refer to a proxy group of publicly-traded companies that pose risks to equity investors similar to

<sup>76</sup> Ex. DOC-12 at 31–32 (Addonizio Direct).

<sup>77</sup> *Id.* at 32.

<sup>78</sup> *Id.*

<sup>79</sup> *Id.* at 36, 39.

the investment risks the not publicly-traded company poses.<sup>80</sup> To develop an appropriate proxy group for estimating Xcel’s cost of equity, the Department first compiled a list of all companies categorized as electric utilities by Value Line, a well-known investor service.<sup>81</sup> The Department then applied various screens designed to make sure the proxy group companies were reasonably comparable to Xcel.<sup>82</sup> This process produced a list of 16 comparable companies.<sup>83</sup> The Commission should rely on the Department’s proxy group in determining Xcel’s cost of equity.

**D. The Department’s Multi-Stage Discounted Cash Flow Model Is Transparent, Is Objective, and Incorporates Reasonable Assumptions.**

One method that is commonly used to estimate the cost of equity is the Discounted Cash Flow (“DCF”) model, which is applied to a group of publicly traded proxy companies to reasonably approximate the utility’s cost of equity. The DCF model is based on the financial theory that the current price of a stock equals the present value of *all* expected future dividends in perpetuity discounted by the appropriate cost of equity (the compensation for the risks associated with owning the stock).<sup>84</sup> The DCF model estimates a company’s cost of equity using a company’s known stock price and its most recent dividend, which are directly observable, and the company’s expected future growth rate.<sup>85</sup>

The Department estimated Xcel’s cost of equity applying a DCF model variation—called a multi-stage DCF analysis—to its proxy group. The Department’s multi-stage DCF has three stages. In the first stage—years one through five—the model assumes that dividends grow at the

---

<sup>80</sup> *Id.* at 14–15.

<sup>81</sup> *Id.* at 16.

<sup>82</sup> *Id.* at 17–20.

<sup>83</sup> *Id.* at 20–21; *see also* Ex. DOC-13 at 4 (Addonizio Surrebuttal) (reflecting minor adjustments to account for developments).

<sup>84</sup> Ex. DOC-1 at 40 (Addonizio Direct).

<sup>85</sup> *Id.* at 40–41.

forecasted growth rates predicted by equity analysts for the proxy group companies.<sup>86</sup> In the second stage, a proxy company’s dividend growth rate moves linearly from the equity analyst growth rate to projected GDP.<sup>87</sup> In the third stage, the model assumes that dividends for the proxy group companies grow at the same rate as U.S. gross domestic product (“GDP”).<sup>88</sup> The Department used two intervals for the second stage transition period: 10 years and 20 years.<sup>89</sup> The Commission should rely on the results of the Department’s multi-stage DCF because it shares the same strengths as other DCF models used by the Commission in the past, relies on reasonable modeling assumptions, and is confirmed by independent equity estimates.

**1. The Department’s multi-stage DCF shares the same positive attributes as other DCF variations relied on by the Commission in previous cases.**

The Commission has consistently favored DCF analyses over other cost models when authorizing ROEs for Minnesota public utilities. The Commission has explained: “[T]he transparency and objectivity of the DCF model make it the strongest, most credible model,” because it calls for “fewer subjective judgments” than other models.<sup>90</sup> While the Commission has primarily relied on the constant growth and two-growth forms of the DCF, the Commission has also considered the multi-stage DCF in the past and recognized that it may be useful in some

---

<sup>86</sup> *Id.* at 46.

<sup>87</sup> *Id.* at 46–47.

<sup>88</sup> *Id.* at 46.

<sup>89</sup> *Id.* at 47.

<sup>90</sup> *In re Appl. of Minn. Energy Res. Corp. for Auth. to Increase Rates for Nat. Gas Serv. in Minn.*, MPUC Docket No. G-011/GR-17-563, FINDINGS OF FACT, CONCLUSIONS, & ORDER at 27 (Dec. 26, 2018) (eDocket No. [201812-148702-01](#)) (MERC 2017 Rate Case Order).

PUBLIC DOCUMENT – NOT  
PUBLIC DATA HAS BEEN EXCISED

situations.<sup>91</sup> In determining a reasonable ROE, the Commission considers the relative objectivity, transparency, reliability, rigor, and timeliness of the analytical models.<sup>92</sup>

The multi-stage DCF incorporates favorable aspects of the DCF that the Commission has praised. For example, the Commission has recognized for the DCF model that “two of its three inputs, dividends and market equity prices are uncontested, publicly reported facts, and the third input, projected growth rates, generally come from a limited number of recognized professional sources.”<sup>93</sup> The Department’s multi-stage DCF, similarly, uses uncontested, publicly available dividends and stock prices. And the third input, the perpetual growth rate, uses the mean of GDP estimates from three different federal government entities—the Energy Information Administration, the U.S. Social Security Administration, and the Congressional Budget Office.<sup>94</sup>

Multi-stage DCF analyses also can alleviate some of the weaknesses of other DCF models. Xcel’s ROE witness, Mr. Nowak, for example, testified in 2022 and 2023 rate cases that the multi-stage DCF model offered improvements over the two-stage DCF model because it provides for a gradual transition to a company’s expected long-term growth, whereas the two-stage model assumes the transition from short to long-term growth occurs in one year.<sup>95</sup>

---

<sup>91</sup> *In re Appl. of Otter Tail Power Co. for Auth. to Increase Rates for Elec. Serv. in the State of Minn.*, MPUC Docket No. E017/GR-20-719, FINDINGS OF FACT, CONCLUSIONS, & ORDER at 34 (Feb. 1, 2022) (eDocket No. [2022-182349-01](#)) (2020 Otter Tail Rate Case Order) (recognizing that the multi-stage DCF “may be particularly useful for smoothing out more sharply anticipated variations in growth rates.”)

<sup>92</sup> MERC 2017 Rate Case Order at 27; *In re Pet. by Great Plains Nat. Gas Co., a Div. of Montana-Dakota Utils., Co., for Auth. to Increase Nat. Gas Rates in Minn.*, MPUC Docket No. G-004/GR-19-511, FINDINGS OF FACT, CONCLUSIONS, & ORDER at 17 (Oct. 26, 2020) (eDocket No. [202010-167656-01](#)) (Great Plains 2019 Rate Case Order).

<sup>93</sup> *Id.*

<sup>94</sup> Ex. DOC-12 at 51 (Addonizio Direct).

<sup>95</sup> Ex. DOC-31 at 62 (Nowak 2020 National Grid Testimony); Ex. DOC-33 at 45–46 (Nowak 2023 Central Hudson Testimony).

Given its theoretical strengths and broad acceptance, the multi-stage DCF therefore has the same reliable and transparent components of the two-stage and constant growth DCF variants, without incorporating subjective, unsustainable perpetual growth rates from equity analysts, as discussed below.

**2. The Department’s multi-stage DCF uses reasonable perpetual growth assumptions.**

The Department estimated Xcel’s cost of equity by relying on a multi-stage DCF analysis as opposed to the constant growth and two growth DCF models.<sup>96</sup> Unlike the multi-stage, these other DCF models generally use equity analyst growth rates that exceed the rate of growth of GDP for the perpetual growth rate.<sup>97</sup> The multi-stage DCF analysis used by the Department, in contrast, uses GDP growth as a proxy for perpetual earnings growth.<sup>98</sup> As a result, the multi-stage methodology is superior for several reasons. First, it is logically impossible for a company to grow faster than the economy as a whole (as measured by projected GDP) in perpetuity, and this principle is well-recognized in financial literature.<sup>99</sup> For example, a popular corporate finance textbook states “dividend growth rates for most mature firms is generally expected to continue in the future at about the same rate as nominal grow domestic product (real GDP plus inflation).”<sup>100</sup> Consistent with this observation, the Department’s multi-stage DCF model uses average GDP as its perpetual growth rate.<sup>101</sup>

---

<sup>96</sup> Ex. DOC-12 at 53-54 (Addonizio Direct).

<sup>97</sup> *Id.*

<sup>98</sup> *Id.* at 51.

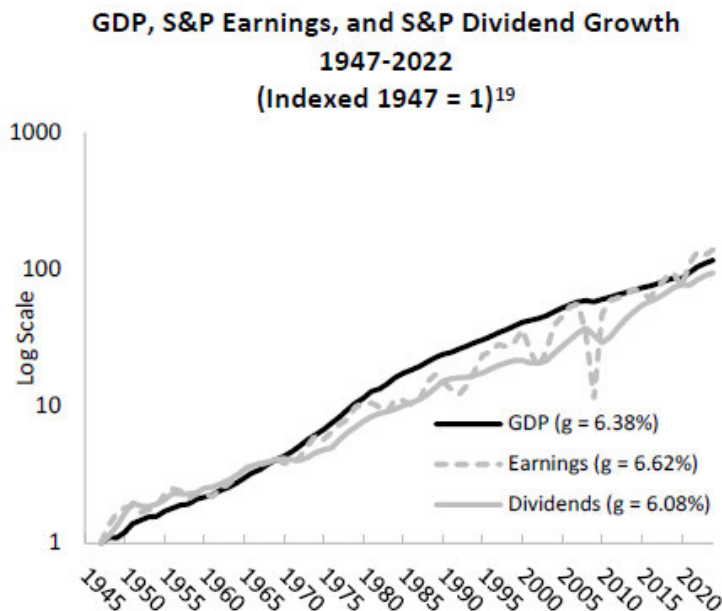
<sup>99</sup> *Id.* at 49.

<sup>100</sup> *Id.* at 50, n.18.

<sup>101</sup> Ex. DOC-2 at 50 (Addonizio Surrebuttal).

PUBLIC DOCUMENT – NOT  
PUBLIC DATA HAS BEEN EXCISED

Second, historical data support dividend and earnings growth not generally exceeding GDP growth in the long run. GDP growth plotted against earnings growth and dividend growth of the S&P Index from 1947 to 2020 shows the three have grown at nearly identical rates:<sup>102</sup>



Finally, using the GDP growth rates from disinterested federal agencies aligns with the values of transparency and objectivity that the Commission has espoused.<sup>103</sup> These GDP growth rates are publicly available and the federal agencies that produce them have no direct interest in the success or failure of the companies in the proxy group and no specific interest in the outcome of this rate case.

In surrebuttal testimony, the Department updated the stock prices, dividends, and forecasted growth used as modeling inputs to reflect changes in market conditions. The table below summarizes the Department’s updated multi-stage DCF analysis, adjusted to include flotation

<sup>102</sup> Ex. DOC-1 at 50 (Addonizio Direct).

<sup>103</sup> See, e.g., Great Plains 2019 Rate Case Order at 18 (“The Commission has considered and weighed . . . the relative objectivity, transparency, reliability, rigor, and timeliness of the analytical models in the record....”).

costs—i.e., costs to issue new shares of common stock, such as legal fees and costs of underwriting:

**Summary of Updated Multi-Stage DCF Results Adjusted for Flotation Cost<sup>104</sup>**

	Mean Low ROE	Mean Avg. ROE	Mean High ROE
Multi-Stage DCF with 10-year 2nd stage	7.72%	8.35%	9.30%
Multi-Stage DCF with 20-year 2nd stage	8.11%	8.71%	9.57%

- 3. Although less reliable, the CAPM model generally confirmed that Xcel’s actual cost of equity is closer to the Department’s 9.25% recommendation than Xcel’s 10.3% proposal.**

To check the reasonableness of its multi-stage DCF results, the Department performed a Capital Asset Pricing Model (“CAPM”) analysis as a “sanity” check on the reasonableness of its DCF results.<sup>105</sup> Although theoretically sound, it is difficult to produce reliable CAPM results. As the Commission has recognized, the CAPM “requires expert judgment at nearly every turn—determining the term of the risk-free, interest-bearing investments used as a bench mark, determining the time frame for calculating growth rates, determining the beta that represents market volatility, determining the historical periods over which to measure returns.”<sup>106</sup> This reliance on the analysts’ judgment is unlike the DCF as “none of these inputs [in the CAPM] are simple matters of fact and public record.”<sup>107</sup> The subjectivity of these judgments means there can be significant variation between analysts in their estimations of several inputs, which is

<sup>104</sup> Ex. DOC-13 at 4 (Addonizio Surrebuttal).

<sup>105</sup> *Id.* at 57, 59.

<sup>106</sup> MERC 2017 Rate Case Order at 25; *see also* Great Plains 2019 Rate Case Order at 17.

<sup>107</sup> *Id.*

compounded when the inputs are combined in the CAPM.<sup>108</sup> The Department, therefore, only used the CAPM as a check on its DCF analyses.<sup>109</sup>

Notwithstanding the risk of unreasonable assumptions and potentially subjective inputs described above, the mean average ROE produced by the Department’s CAPM cost-of-equity estimate is generally below Xcel’s requested ROE of 10.30%. These results are shown in the table below:

Model	Mean Low	Mean Average	Mean High
Multi-Stage DCF w/10-year 2 <sup>nd</sup> Stage <sup>110</sup>	7.72%	8.35%	9.30%
Multi-Stage DCF w/20-year 2 <sup>nd</sup> Stage <sup>111</sup>	8.11%	8.71%	9.57%
CAPM w/10-Year Growth Transition Period <sup>112</sup>	5.88%	6.20%	6.72%
CAPM w/10-Year Growth Transition Period <sup>113</sup>	6.80%	7.04%	7.45%

**4. Independent cost-of-equity estimates confirm the reasonableness of the Department’s multi-stage DCF modeling results.**

The Department also considered other cost-of-equity evidence, including reports of various equity research firms and investment banks regarding cost of equity for Xcel’s parent company, Xcel Energy.<sup>114</sup> Morningstar, for example, estimated Xcel Energy, Inc.’s cost of equity to be [NOT PUBLIC DATA BEGINS . . . █████ . . . NOT PUBLIC DATA ENDS], while Wells Fargo estimated it to be [NOT PUBLIC DATA BEGINS . . . █████ . . . NOT PUBLIC DATA ENDS].<sup>115</sup> In addition, the Department reviewed long-term return estimates for U.S. equities from a quarterly

<sup>108</sup> Ex. DOC-1 at 30 (Addonizio Direct).

<sup>109</sup> *Id.* at 59.

<sup>110</sup> Ex. DOC-2 at 4 (Addonizio Surrebuttall).

<sup>111</sup> *Id.*

<sup>112</sup> *Id.* at 6.

<sup>113</sup> *Id.*

<sup>114</sup> Ex. DOC-1 at 65, 67 (Addonizio Direct).

<sup>115</sup> *Id.* at 67.

survey of financial executives conducted by the Richmond Federal Reserve Bank as well as a well-known annual survey of professors, analysts, and corporate managers conducted by Dr. Pablo Fernandez of the IESE Business School in Spain.<sup>116</sup> Although these estimates were for U.S. equities generally and not specific to utility stocks, utility stocks are generally considered less risky, on average, which means that these estimates likely exceed the expected returns for utility stocks.<sup>117</sup> Reviewing this data, the Department found that Xcel’s requested ROE of 10.30% was greater than all but one of the independent estimates of long-term U.S. equity returns, and more than two percentage points higher than a large majority.<sup>118</sup> The Department’s recommendation of 9.25% was also higher than all but 6 of the 27 estimates—making it conservative in Xcel’s favor.<sup>119</sup>

**E. The Commission Should Adopt the Department’s Recommended ROE.**

Although the terms are often used interchangeably, “cost of equity” and “return on equity” are distinct concepts. Cost of equity is the minimum return that investors require to invest in a company’s stock and is a long-run concept. A company’s return on equity is the actual return that the company generates.<sup>120</sup> For a regulated utility, authorized return on equity is a value determined by the Commission to represent a return sufficient to enable the company “to operate successfully, to maintain its financial integrity, to attract capital, and to compensate its investors for the risks assumed.”<sup>121</sup> The modeling approaches used by both the Department and Xcel produce an estimate of Xcel’s cost of equity. While the Department’s multi-stage DCF represents the most reasonable estimate of Xcel’s cost of equity, the Department does not recommend setting Xcel’s authorized ROE equal to the multi-stage DCF results in this proceeding. Instead, the Department recommends

---

<sup>116</sup> *Id.* at 67–68.

<sup>117</sup> *Id.* at 69–70.

<sup>118</sup> *Id.* at 69.

<sup>119</sup> *Id.*

<sup>120</sup> *Id.* at 70–71.

<sup>121</sup> *Hope*, 320 U.S. at 605.

setting the authorized ROE at 9.25%, which is appropriately above the cost of equity, based on the record as a whole.

**1. Authorizing an ROE that exceeds Xcel's cost of equity is conservative and assures Xcel's continued access to capital at reasonable rates.**

Rather than set Xcel's ROE at the cost of equity, the Commission should set Xcel's ROE based on the whole record, considering the reasonable models and authorized ROEs from other jurisdictions and other relevant, case-specific factors. Although it would be consistent with financial theory to set Xcel's ROE at the cost of equity, there is empirical evidence that commissions throughout the United States authorize ROEs that exceed it. As a result, the Department recommends that the Commission take a conservative approach by setting Xcel's ROE at 9.25%, which likely exceeds Xcel's actual cost of equity.

There are strong reasons for setting a utility's authorized ROE equal to its cost of equity. Theoretically, competition in capital markets should drive the expected return of any stock to its cost of equity.<sup>122</sup> Setting a utility's ROE equal to its cost of equity should assure the utility of an adequate supply of capital to make necessary investments and eliminate the incentive to pursue unnecessary investments, while providing ratepayers with safe and reliable service at the lowest cost.<sup>123</sup>

But empirical evidence suggests that authorized ROEs for regulated utilities typically exceed the cost of equity calculated by reasonable models.<sup>124</sup> This trend has also been observed by utility regulation scholars including Alfred Kahn, the author of an influential treatise on the economics of regulation.<sup>125</sup> While there does not appear to be a single cause for why regulators set

---

<sup>122</sup> Ex. DOC-1 at 71 (Addonizio Direct).

<sup>123</sup> *Id.* at 72–73.

<sup>124</sup> *Id.* at 75–76.

<sup>125</sup> *Id.* at 77.

PUBLIC DOCUMENT – NOT  
PUBLIC DATA HAS BEEN EXCISED

the authorized ROE above the cost of equity, a risk remains in departing substantially from allowed ROEs in other jurisdictions.<sup>126</sup> Cost of equity estimates are, by definition, estimates, and it is better to err on the side of setting allowed ROEs above the cost of equity to allow Xcel to attract the capital necessary to provide safe and reliable service and maintain financial integrity.<sup>127</sup>

Given these considerations, the Commission should determine Xcel's ROE based on all pertinent evidence rather than rigidly applying some formula. The Department recommends authorizing an ROE for Xcel that is above Xcel's estimated cost of equity, as reflected by analytical modeling using reasonable inputs, while still taking into account the interests of consumers in affordable rates for electricity by moving Xcel's approved ROE incrementally but significantly closer to Xcel's cost of equity.<sup>128</sup> Such a holistic review supports an ROE of 9.25%.

Xcel argues that the Department's ROE recommendation is not supported by the Department's own cost of equity estimates.<sup>129</sup> This criticism appears to reflect a misunderstanding of the Department's analysis. The Department used reasonable and generally accepted tools to estimate Xcel's cost of equity, which represents the lower boundary of a return that will assure the utility an adequate capital supply while providing an incentive to operate efficiently.<sup>130</sup> Thus, the Department used Xcel's cost of equity as an appropriate starting point for determining a reasonable ROE.

---

<sup>126</sup> *Id.* at 70–71.

<sup>127</sup> *Id.* at 84–85.

<sup>128</sup> *Id.* at 84–85.

<sup>129</sup> Ex. Xcel-25 at 8 (Nowak Rebuttal).

<sup>130</sup> Ex. DOC-1 at 85–86 (Addonizio Direct).

**2. A 9.25% ROE appropriately balances the interests of Xcel’s investors and its ratepayers and is supported by the record as a whole.**

To appropriately balance the interests of Xcel’s investors and the interests of Xcel’s ratepayers, the Department considered all the evidence to strike a reasonable compromise between two competing considerations:

- The strong, widely accepted reasons to set the allowed ROE equal to the cost of equity, as an allowed ROE above the cost of equity means that, at a minimum, ratepayers have to pay more for service they could have received at a lower price; and
- Empirical evidence that state utilities commissions typically set ROEs above the cost of equity and the potential consequences for completely departing from this past practice.<sup>131</sup>

To address these competing considerations, the Department reviewed recent ROE determinations in fully litigated rate cases and compared them to the trend of estimates of the Department’s proxy group’s average cost of equity over time, as determined by the application of its multi-stage DCF, and yields on the 30-year Treasury bond.<sup>132</sup> This comparison provides a rough indication of the extent to which authorized ROEs have exceeded the cost of equity. The following figure illustrates this comparison:<sup>133</sup>

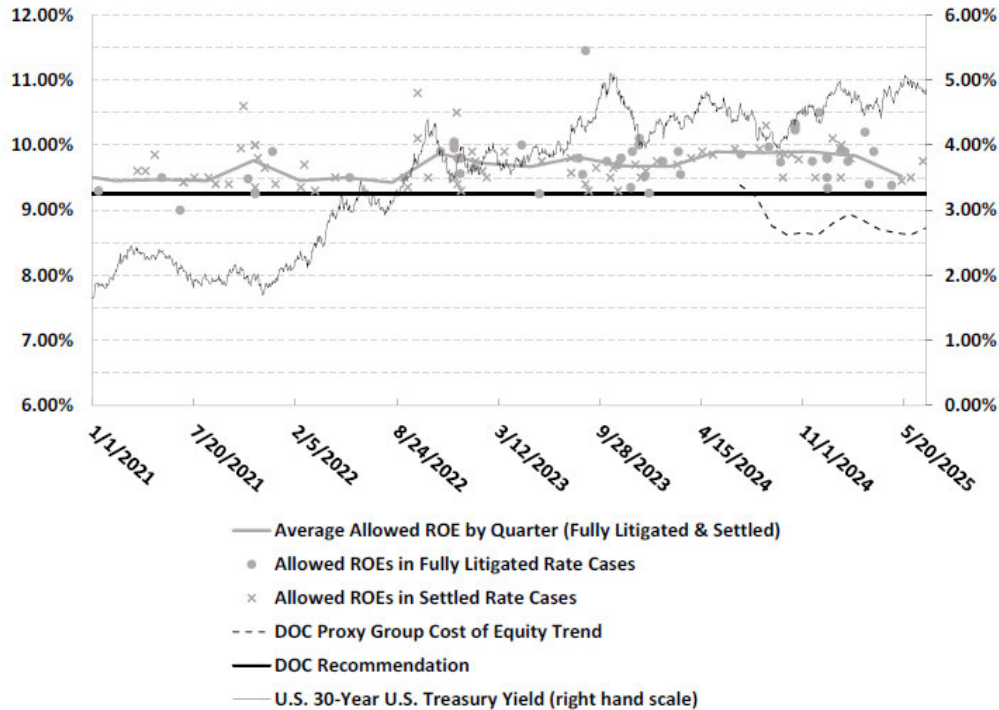
---

<sup>131</sup> *Id.* at 82.

<sup>132</sup> *Id.* at 84.

<sup>133</sup> *Id.* at 84 (Addonizio Direct). The left-hand Y-axis depicts authorized ROES while the right-hand Y-axis depicts 30-year treasury bond yields.

PUBLIC DOCUMENT – NOT  
PUBLIC DATA HAS BEEN EXCISED



Based on this comparison, the Department recommends that the Commission approve an ROE of 9.25%. This ROE would be above Xcel’s cost of equity and below the average, but generally within the range of ROEs recently authorized in other jurisdictions. It would maintain Xcel’s existing ROE of 9.25%.<sup>134</sup> The Department’s recommendation is on the low end of recent allowed ROEs for other electric utilities, but comfortably above Xcel’s estimated cost of equity, including flotation costs (8.82%).<sup>135</sup> In addition, neither allowed ROEs nor the average cost of equity of the DOC Proxy Group show any meaningful upward trend over the last year, indicating that an increase from the current authorized ROE is not warranted.<sup>136</sup> Moreover, Xcel was able to issue debt at interest rates much lower than one of its sister companies, as noted by NSPM’s treasurer, with its current authorized ROE at 9.25%.<sup>137</sup> As described above, S&P even upgraded

<sup>134</sup> *Id.* at 85.

<sup>135</sup> *Id.*

<sup>136</sup> *Id.*

<sup>137</sup> *Id.*

NSPM's credit rating following the Commission's decision to set NSPM's authorized ROE at 9.25% in the Company's prior rate case. Thus, an authorized ROE of 9.25% does not appear to have hindered the Company's ability to raise capital at a reasonable cost.<sup>138</sup>

**F. The Record Does Not Support Xcel's Recommended ROE of 10.3%.**

While giving lip-service to the Commission's obligation to balance the interests of investors and consumers, Xcel's ROE witness did not otherwise mention the concepts in his analysis or testimony.<sup>139</sup> Xcel's recommended ROE is based on unreasonably high inputs, unreliable methodologies, and a flawed understanding of opportunity costs, resulting in an ROE that is good for Xcel but bad for its ratepayers. This recommendation is unsurprising. Mr. Nowak has consistently recommended unreasonably high ROEs for years regardless of the economic conditions, jurisdiction, or the utility involved.

**1. Xcel's recommended ROE of 10.3% is unreasonably high and fails to balance the interests of investors and ratepayers.**

By any sensible measure, Xcel's requested 10.3% ROE is too high. Xcel's requested ROE exceeds its current Commission-approved ROE of 9.25% by 105 basis points, worth \$103.4 million annually.<sup>140</sup> Xcel's requested ROE also is significantly above independent estimates of Xcel's cost of equity.<sup>141</sup>

Mr. Nowak's analyses contain various flaws that render their results unreliable:

- Many of his DCF analyses rely on unrealistically high estimates of earnings and dividend growth that bias his results upward.<sup>142</sup>
- For his CAPM modeling, Mr. Nowak used forecasted yields on U.S. Treasury bonds as the risk-free rate even though actual bond yields already reflect investor

---

<sup>138</sup> *Id.*

<sup>139</sup> Ex. Xcel-24 at 10 (Nowak Direct).

<sup>140</sup> Ex. Xcel-25 at 6 (Nowak Rebuttal); Ex. DOC-1 at 43 (Addonizio Direct).

<sup>141</sup> Ex. DOC-1 at 67 (Addonizio Direct).

<sup>142</sup> *Id.* at 90–91.

PUBLIC DOCUMENT – NOT  
PUBLIC DATA HAS BEEN EXCISED

expectations about the future.<sup>143</sup> Mr. Nowak also relied on unreasonably high estimated growth rates – roughly double GDP growth forecasts issued by the federal government and significantly higher than independent estimates.<sup>144</sup>

- Mr. Nowak’s Bond Yield Plus Risk Premium model unreasonably assumes that past authorized ROEs determined by state utility commissions around the country have reflected the cost of equity, but, as discussed above, empirical evidence strongly suggests that authorized ROEs have been greater than the cost of equity for many years.<sup>145</sup>
- Lastly, Mr. Nowak purported to estimate Xcel’s required ROE using Expected Earnings analysis that compares expected returns on book value for each of his proxy companies’ equity to the book value of each company’s equity.<sup>146</sup> This analysis, however, relies on a flawed premise because investors cannot purchase equity for book value, they must instead purchase it for market value.<sup>147</sup> Because of this flaw, other regulators, including the Federal Energy Regulatory Commission have rejected Expected Earnings analysis as incompatible with *Hope*.<sup>148</sup>

These significant flaws render Mr. Nowak’s quantitative analyses unreliable. Essentially, Mr. Nowak inflates the results of his modeling by relying on unrealistic assumptions about growth. Thus, even the results of Mr. Nowak’s theoretically sound methodologies, such as the DCF and CAPM, are unreliable.

**2. Xcel’s recommended ROE is tainted by the personal financial interest of the company’s ROE witness in obtaining a favorable outcome for an important client.**

Xcel’s ROE witness, Mr. Nowak, repeatedly acknowledged that the various models he uses to estimate Xcel’s ROE cannot be applied without exercising “informed judgment.”<sup>149</sup> Given the importance of “judgment” in his recommendation, the Commission should consider how

---

<sup>143</sup> *Id.* at 92–93.

<sup>144</sup> *Id.* at 95–96.

<sup>145</sup> *Id.* at 96–97.

<sup>146</sup> *Id.* at 98.

<sup>147</sup> *Id.*

<sup>148</sup> *Id.* at 99.

<sup>149</sup> Ex. Xcel-24 at 5, 10 (Nowak Direct); Ex. Xcel-25 at 19 (Nowak Rebuttal).

PUBLIC DOCUMENT – NOT  
PUBLIC DATA HAS BEEN EXCISED

Mr. Nowak's financial interests, and those of his company, might have influenced his exercise of judgment here.

Mr. Nowak is not just a retained expert. He is a vice president of the consulting firm Concentric Energy Advisors. Xcel has been the source of a large amount of lucrative work for Concentric.<sup>150</sup> For direct testimony alone, Mr. Nowak billed Xcel about **[NOT PUBLIC DATA BEGINS . . . ██████████ . . . NOT PUBLIC DATA ENDS]**, and in Xcel's recent natural gas rate case, which settled after direct testimony, Mr. Nowak billed Xcel about **[NOT PUBLIC DATA BEGINS . . . ██████████ . . . NOT PUBLIC DATA ENDS]**.<sup>151</sup> Counting this case, Mr. Nowak or one of his Concentric colleagues have testified on behalf of Xcel subsidiaries at least a dozen times since 2004, with at least one more case pending.<sup>152</sup> As a result, Concentric has likely earned

---

<sup>150</sup> Evid. Hrg. Tr. Vol. 1 at 58 (Nowak).

<sup>151</sup> Ex. DOC-28 at 2 (DOC Request 006).

<sup>152</sup> *In re N. States Power Co.'s Appl. For Auth. To Increase Gas Rates in Minn.*, Docket No. G002/GR-04-1511, Direct Testimony of Robert B. Hevert at 2–3 (Sept. 17, 2004) (eDocket no. [1914824](#)) (recommending a 11.5% ROE for Xcel's gas distribution utility); *In re N. States Power Co.'s Appl. For Auth. To Increase Elec. Rates in Minn.*, Docket No. E002/GR-05-1428, Direct Testimony of Robert B. Hevert at 3 (469 of 562) (Nov. 2, 2005) (eDocket no. [160820](#)) (recommending a 11.0% ROE for Xcel's electric utility); *In re N. States Power Co.'s Appl. For Auth. To Increase Gas Rates in Minn.*, Docket No. G002/GR-06-1429, Direct Testimony of John J. Reed at 2 (Nov. 9, 2006) (eDocket no. [3565144](#)) (recommending a 11.0% ROE for Xcel's gas distribution utility); *In re N. States Power Co.'s Appl. For Auth. To Increase Elec. Rates in Minn.*, Docket No. E002/GR-08-1065, Direct Testimony of John J. Reed at 3 (Nov. 3, 2008) (eDocket no. [5597494](#)) (recommending an ROE of no less than 11.25% for Xcel's electric utility); *In re N. States Power Co.'s Appl. For Auth. To Increase Gas Rates in Minn.*, Docket No. G002/GR-09-1153, Direct Testimony of John J. Reed at 2 (Nov. 12, 2009) (eDocket no. [200911-43962-06](#)) (recommending a 11.0% ROE for Xcel's gas distribution utility); *In re N. States Power Co.'s Appl. For Auth. To Increase Elec. Rates in Minn.*, Docket No. E002/GR-10-971, Direct Testimony of John J. Reed at 3 (Nov. 3, 2010) (eDocket no. [201011-56168-06](#)) (recommending a 11.25% ROE for Xcel's electric utility); *In re N. States Power Co.'s Appl. For Auth. To Increase Elec. Rates in Minn.*, Docket No. E002/GR-12-961, Direct Testimony of Robert B. Hevert at 2 (Nov. 2, 2012) (eDocket no. [201211-80320-05](#)) (recommending a 10.6% ROE for Xcel's electric utility); *In re N. States Power Co.'s Appl. For Auth. To Increase Elec. Rates in Minn.*, Docket No. E002/GR-13-868, Direct Testimony of Robert B. Hevert at 2 (Nov. 4, 2013) (eDocket no. [201311-93266-04](#)) (recommending a 10.25% ROE for Xcel's electric utility); *In re N. States Power Co.'s Appl. For Auth. To Increase Elec. Rates in Minn.*, Docket No. E002/GR-

PUBLIC DOCUMENT – NOT  
PUBLIC DATA HAS BEEN EXCISED

millions of dollars from its ongoing relationship with Xcel since 2004, not including work for Xcel's affiliates in other states. It is reasonable to infer that Mr. Nowak's significant financial interest in helping to obtain a favorable result for a valued client has at least implicitly affected his recommendations in this case.

Although Mr. Nowak represents that his ROE recommendation is based on quantitative analyses, his recommendations in rate cases for nearly a decade have remained remarkably static regardless of the broader economic environment or the utility involved. Mr. Nowak's tactic appears to be pulled from the Concentric playbook, as shown in the table below. This strategy, however, has not been effective. Indeed, the Commission has never adopted any of the elevated ROE recommendations made by Mr. Nowak or his colleagues in more than two decades.<sup>153</sup>

---

15-826, Direct Testimony of James M. Coyne at 4 (Nov. 2, 2015) (eDocket no. [201511-115334-01](#)) (recommending a 10.0% ROE for Xcel's electric utility); *In re N. States Power Co.'s Appl. For Auth. To Increase Elec. Rates in Minn.*, Docket No. E002/GR-19-564, Direct Testimony of John J. Reed at 3 (Nov. 1, 2019) (eDocket no. [201911-157100-08](#)) (recommending an ROE of no less than 10.2% for Xcel's electric utility); Ex. DOC-34 at 5 (eDocket no. [202512-226016-11](#)) (*In re N. States Power Co.'s Appl. For Auth. To Increase Gas Rates in Minn.*, Docket No. G002/GR-23-413, Rebuttal Testimony of Joshua C. Nowak at 4 (May 29, 2024) (recommending a 10.2% ROE for Xcel's gas distribution utility)); Ex. DOC-35 at 5 (eDocket no. [202512-226016-12](#)) (*In re N. States Power Co.'s Appl. For Auth. To Increase Gas Rates in Minn.*, Docket No. G002/GR-25-356, Direct Testimony of Joshua C. Nowak at 4 (Oct. 31, 2025) (recommending a 10.25% ROE for Xcel's gas distribution utility)).

<sup>153</sup> *In re N. States Power Co.'s Appl. For Auth. To Increase Gas Rates in Minn.*, Docket No. G002/GR-04-1511, ORDER ACCEPTING AND MODIFYING SETTLEMENT at 12 (Aug. 11, 2005) (eDocket no. [2236724](#)); *In re N. States Power Co.'s Appl. For Auth. To Increase Elec. Rates in Minn.*, Docket No. E002/GR-05-1428, Findings of Fact, Conclusions of Law, & Order at 28 (Sept. 1, 2006) (eDocket no. [3285507](#)); *In re N. States Power Co.'s Appl. For Auth. To Increase Gas Rates in Minn.*, Docket No. G002/GR-06-1429, FINDINGS OF FACT, CONCLUSIONS OF LAW, & ORDER at 36 (Sept. 10, 2007) (eDocket no. [4768622](#)); *In re N. States Power Co.'s Appl. For Auth. To Increase Elec. Rates in Minn.*, Docket No. E002/GR-08-1065, FINDINGS OF FACT, CONCLUSIONS OF LAW, & ORDER at 12 (Oct. 23, 2009) (eDocket no. [200910-43195-01](#)) (2008 Rate Case Order); *In re N. States Power Co.'s Appl. For Auth. To Increase Gas Rates in Minn.*, Docket No. G002/GR-09-1153, FINDINGS OF FACT, CONCLUSIONS OF LAW, & ORDER at 29 (Dec. 6, 2010) (eDocket no. [201012-57199-01](#)); *In re N. States Power Co.'s Appl. For Auth. To Increase Elec. Rates in Minn.*, Docket No. E002/GR-10-971, Findings of Fact, Conclusions of Law, & Order at 8 (May 14, 2012) (eDocket no. [20125-74691-01](#)); *In re N. States Power Co.'s Appl. For Auth. To*

**Concentric ROE Recommendations  
for Xcel Since 2004<sup>154</sup>**

Year	Concentric Witness	Recommended ROE
2004	Robert B. Hevert	11.5%
2005	Robert B. Hevert	11.0%
2006	John J. Reed	11.0%
2008	John J. Reed	11.25%
2009	John J. Reed	11.0%
2010	John J. Reed	11.25%
2012	Robert B. Hevert	10.6%
2013	Robert B. Hevert	10.25%
2015	James M. Coyne	10.0%
2019	John J. Reed	10.2%
2023	Joshua C. Nowak	10.2%
2025	Joshua C. Nowak	10.65%
<b>Average:</b>		<b>10.74%</b>

In this case, Mr. Nowak, consistent with the Commission’s preference, primarily relied on variations of DCF analysis in making his ROE recommendation. The DCF approach is based on the theory that a stock’s current price represents the present value of all expected future cash flows, which for purposes of the model, are assumed to be equal to all expected future dividends.<sup>155</sup> One of the key inputs is the discount rate or required return that the average investor requires as compensation for the risks associated with owning the stock.<sup>156</sup> Mr. Nowak testified that the required return will generally track changes in interest rates because when interest rates increase

---

*Increase Elec. Rates in Minn.*, Docket No. E002/GR-12-961, FINDINGS OF FACT, CONCLUSIONS OF LAW, & ORDER at 11-12 (Sept. 3, 2013) (eDocket no. [20139-90902-01](#)) (2012 Rate Case Order); *In re N. States Power Co.’s Appl. For Auth. To Increase Elec. Rates in Minn.*, Docket No. E002/GR-13-868, FINDINGS OF FACT, CONCLUSIONS OF LAW, & ORDER at 61 (May 8, 2015) (eDocket no. [20155-110264-01](#)); *In re N. States Power Co.’s Appl. For Auth. To Increase Elec. Rates in Minn.*, Docket No. E002/GR-15-826, FINDINGS OF FACT, CONCLUSIONS OF LAW, & ORDER at 61 (June 12, 2017) (eDocket no. [20176-132748-01](#)) (2015 Rate Case Order); *In re N. States Power Co.’s Appl. For Auth. To Increase Gas Rates in Minn.*, Docket No. G002/GR-23-413, ORDER ACCEPTING & ADOPTING AGREEMENT SETTING RATES at 5 (Mar. 5, 2025) (eDocket. No. [20253-216076-01](#)).

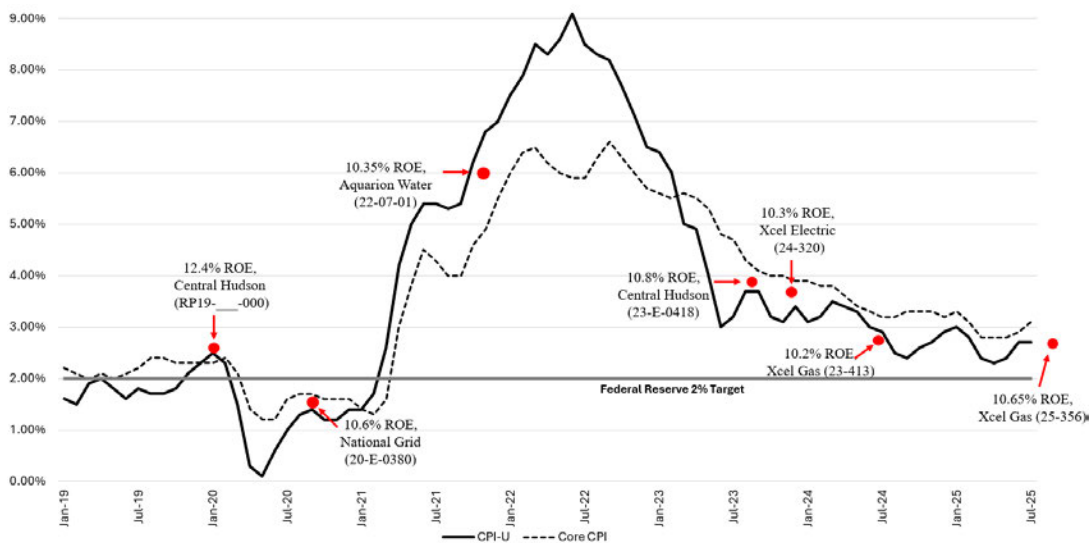
<sup>154</sup> *Supra* n.152.

<sup>155</sup> Ex. Xcel-24 at 35 (Nowak Direct).

<sup>156</sup> *Id.*

so do returns on treasury bonds.<sup>157</sup> He also testified that higher inflation and interest rates are typically associated with downward pressure on the value of utility stocks. And downward pressure on utility stocks, in turn, drives the cost of equity higher.<sup>158</sup> But Mr. Nowak’s ROE recommendations in other proceedings contradict this notion. Mr. Nowak, for example, recommended a 10.6% ROE for National Grid when inflation rates were around 1%, but a 10.35% ROE for Aquarion Water when inflation rates were around 6%.<sup>159</sup> Most puzzling, Mr. Nowak recommended both ROEs of 10.2% and 10.65% for Xcel’s gas distribution utility in Minnesota despite similar economic environments.<sup>160</sup>

### Nowak ROE Recommendations vs. Inflation<sup>161</sup>



<sup>157</sup> Evid. Hrg. Tr. Vol. 1 at 76 (Nowak).

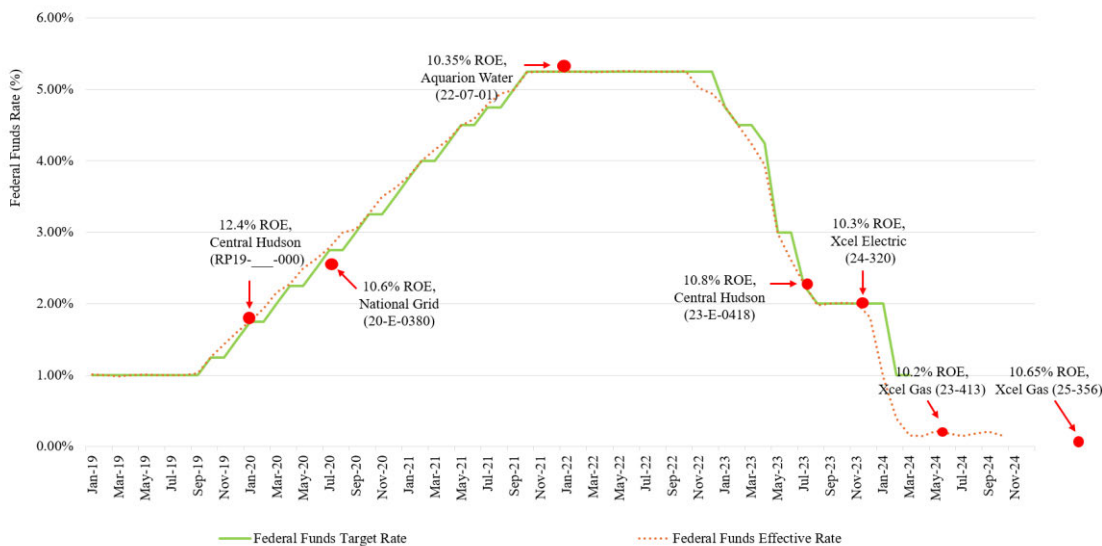
<sup>158</sup> Ex. Xcel-25 at 18 (Nowak Rebuttal).

<sup>159</sup> Evid. Hrg. Tr. Vol. 1 at 82, 84 (Nowak).

<sup>160</sup> Compare Ex. DOC-34 at 4, with Ex. DOC-35 at 4.

<sup>161</sup> Ex. DOC-29 at 8, Ex. DOC-30, Ex. DOC-31 at 6, Ex. DOC-32 at 4, Ex. DOC-33 at 5, Ex. DOC-34 at 4, Ex. DOC-35 at 4.

**Nowak ROE Recommendations vs. Interest Rates<sup>162</sup>**



These recommendations suggest that Mr. Nowak’s quantitative modeling results are not the product of reasoned judgment, but outcome determinative exercises, using unrealistic inputs, to produce a desired result – consistent with the client’s preference.

**4. Xcel failed to prove that it needs a 10.3% ROE to obtain access to capital at reasonable rates.**

A utility’s authorized rate of return must be: (1) sufficient to enable the regulated company to maintain access to credit and financial integrity; and (2) sufficient to enable the utility to attract capital; commensurate with returns being earned on other investments having equivalent risks.<sup>163</sup> Xcel has failed, however, to establish that a 10.3% ROE—a 105 basis point increase over its most recently approved ROE—is needed to accomplish these objectives. To the extent that the approved ROE exceeds what is necessary, the excess comes at the expense of Xcel’s ratepayers.

Xcel asserts that maintaining a strong financial profile helps the company attract capital and inspire investor confidence. Xcel asserts that it needs a higher ROE to maintain such a profile.

<sup>162</sup> *Id.*; Ex. Xcel-24 at 16 (Nowak Direct).

<sup>163</sup> *Hope*, 320 U.S. at 603.

PUBLIC DOCUMENT – NOT  
PUBLIC DATA HAS BEEN EXCISED

But the record shows that Xcel, and NSPM specifically, have raised substantial amounts of capital without issue with NSPM’s current ROE of 9.25%.<sup>164</sup> Moreover, Xcel’s credit ratings have improved or remained stable since the company’s last rate case.<sup>165</sup> Consistent with its strong credit rating, Xcel has further seen profits rise and its share price reach a record high in October 2025.<sup>166</sup> These metrics demonstrate that Xcel has been able to operate successfully, maintain its financial integrity, attract capital, and inspire investor confidence.

In sum, the evidence shows that Xcel has been thriving financially. Xcel offers no credible justification for the massive ROE increase that it seeks.

**G. The Commission Should Adopt the Department’s Proposed Rate of Return.**

For all the above reasons, the Department recommends an overall rate of return of 7.01% in 2025 and 7.00 in 2026.<sup>167</sup>

**Table 1**  
**DOC Proposed**  
**Overall Rate of Return**

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

<sup>164</sup> Ex. Xcel-20 at 18 (Wehner Direct); Ex. Xcel-21 at 6 (Wehner Rebuttal); Evid. Hrg. Tr. Vol. 1 at 43–44 (Wehner).

<sup>165</sup> Evid. Hrg. Tr. Vol. 1 at 43–44 (Wehner).

<sup>166</sup> Ex. DOC-26 at 49 (Xcel Energy, Inc.’s 2024 Form 10-K showing that Xcel’s net income was \$1.9 billion in 2024 compared with \$1.7 billion in 2024); Ex. DOC-27 at 2 (DOC Request 3118).

<sup>167</sup> Ex. DOC-13 at 3 (Addonizio Surrebuttal).

**II. THE COMMISSION SHOULD ADOPT THE DEPARTMENT’S ADJUSTMENTS REDUCING XCEL’S INFLATED AND UNSUPPORTED RATE BASE AND OPERATING REVENUES AND EXPENSES.**

Xcel has not established that its proposed revenue requirement is just and reasonable by a preponderance of the evidence. On the contrary, the record establishes that Xcel’s claimed revenue requirement deficiency is greatly overstated. For many issues, Xcel failed to carry its burden of proof to show that its underlying requests were reasonable, and the Department recommends removing the costs associated with these requests from the rate case. For other issues, Xcel has failed to show that the amount it seeks to recover is reasonable, and the Department recommends adjusting recovery to an amount that results in just and reasonable rates.

Many of Xcel’s requests seek to relitigate long-resolved issues. Specifically, Xcel requests that the Commission authorize long-term incentive compensation recovery the Commission has consistently denied, increase the cap on its short-term incentive compensation, and approve pricy compensation and benefits packages for corporate executives. In another retread, Xcel seeks to have the Commission reverse its long-standing decisions requiring the use of an FTE-based general cost allocator.

For some requests, Xcel attempts to shift operating and business risks that the company is richly compensated for bearing to its customers. Although Xcel’s Riverside Natural Gas Generating Station will undisputedly be out of service for significant portions of the 2025 and 2026 test years, Xcel proposes that it be compensated as though it were “used and useful.” Similarly, the Commission should require Xcel to credit customers with Prairie Island Nuclear Generating Plant capacity revenues that will be lost because of the company’s established imprudence.

Finally, Xcel seeks to inflate its rate base and operations and maintenance (“O&M”) budgets. Xcel also seeks to earn a full return on a pension asset despite having a nominal legal

interest in the asset. And in other areas, Xcel asks the Commission to approve oversized O&M budgets despite a history of over forecasting and underspending (resulting in Xcel pocketing unspent ratepayer money).

**A. Insurance Premium Expense Should Be Set Using Historical Averages to Smooth Out the Large and Unpredictable Fluctuations in Expenses.**

Despite the Commission’s clear order to develop a record on insurance premium expense that, at a minimum, addresses six enumerated subtopics, Xcel’s proposed expense does not give ratepayers protection from the inclusion of unreasonable and potentially unrepresentative insurance premium expenses in rates.<sup>168</sup> Instead, Xcel relies on an unreasonably truncated two-year lookback period as the foundation for its forecast. It ignores credits that should reduce insurance expense. And it bafflingly asserts that Minnesota’s premium expense “will not be impacted” by the Marshall Wildfire in Colorado and the 2024 Smokehouse Creek Fire Complex in Texas, both of which occurred in the territories of XEI subsidiaries, despite acknowledging that those wildfires have changed the insurance market and caused premiums to rise.<sup>169</sup>

Xcel procures its insurance policies annually, and centralizes its insurance risk management at the XEI level.<sup>170</sup> To develop its insurance premium expense forecasts, the company consults with its insurance brokers to determine insurance market trends, and considers its exposure metrics, such as number of employees, miles of pipes and wires, and the insurable value of its assets.<sup>171</sup> The forecast includes expected distributions, which are credited against

---

<sup>168</sup> See NOTICE AND ORDER FOR HEARING at 3–4 (Dec. 30, 2024); Ex. DOC-23 at 21–22 (Jones Direct); Ex. DOC-24 at (Jones Rebuttal).

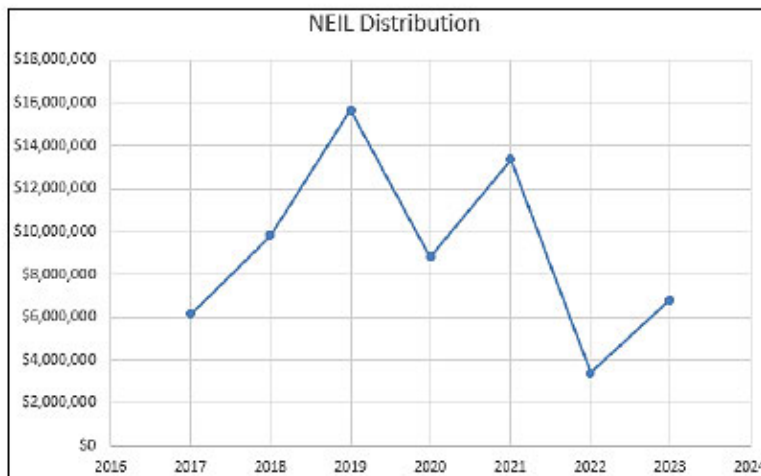
<sup>169</sup> The Marshall Wildfire occurred in Public Service Company of Colorado’s territory in 2021, and the Smokehouse Creek fire occurred in Southwestern Public Service Company’s territory in 2024. Ex. Xcel-56 at 14 (Miller Rebuttal).

<sup>170</sup> Ex. Xcel-55 at 20 (Miller Direct).

<sup>171</sup> *Id.* at 3, 9.

expenses.<sup>172</sup> These distributions are significant in size compared to the overall insurance premium expense, and, as the Commission and Xcel have recognized, have “varied greatly year to year,” as illustrated below for one of the company’s larger expected annual distributions.<sup>173</sup>

**Figure 1**  
**NEIL Distribution**



Xcel’s 2025 and 2026 forecasts were generally based “on insurance premiums [the company] paid in 2023 and 2024.”<sup>174</sup>

Given the significant size of credits relative to the overall insurance premium expense, and their significant year-over-year variation, the overall year-over-year changes in insurance premium expenses also vary widely. For example, since 2021, annual changes have fluctuated from as little as -22.13% to as much as 122.67%.<sup>175</sup> Due to the highly volatile nature of this expense and the

<sup>172</sup> *Id.* at 20.

<sup>173</sup> *Id.* at 20–21; *In re Appl. of N. States Power Co. for Authority to Increase Its Rates for Elec. Serv. in the State of Minn.*, E-002/GR-21-630, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 18–19 (July 17, 2023) (2021 Rate Case Order) (eDocket No. [20237-197559-01](#)) (“[T]hese distribution amounts fluctuate significantly and unpredictably. . . . [V]arying distributions from mutual insurance pools appear to be a continuing issue equally likely to affect future years in unanticipated ways as they have in past years.”)

<sup>174</sup> *Id.* at 20.

<sup>175</sup> Ex. DOC-24 at 24 (Jones Surrebuttal).

PUBLIC DOCUMENT – NOT  
PUBLIC DATA HAS BEEN EXCISED

difficulty of accurately forecasting the total expense, the Department recommended an insurance premium expense based on 2024 actual expense, adjusted upwards by the average increase from 2020 to 2024 to generate the 2025 test year expense, and increasing the Department’s proposed 2025 test year expense by Xcel’s recommended percentage increase for the 2026 plan year expense.<sup>176</sup> This approach uses 2024 actuals, rather than a historical average, for the starting point in recognition that the insurance premium expense has increased significantly in recent years, while using a historical average to calculate the increase in expense to account for the extreme variation in year-over-year actual expenses.

Xcel criticized the Department for using an average from 2020 through 2024 rather than confining its analysis to the three years since the company’s most recent rate case. But using a longer look-back period is appropriate when the year-over-year changes are as volatile as they are in the insurance market.<sup>177</sup> Although Xcel’s forecasted insurance premium expenses were closer to its actual expenses from 2022 through 2024 than they had been from 2017 through 2021, the accuracy of those forecasts still varied from [NOT PUBLIC DATA BEGINS . . . ██████████

██████████ . . . NOT PUBLIC DATA ENDS]<sup>178</sup>  
to [NOT PUBLIC DATA BEGINS . . . ██████████

██████████ . . . NOT PUBLIC DATA ENDS].<sup>179</sup> In contrast, from 2017 through 2021, the forecast only [NOT PUBLIC DATA BEGINS . . . ██████████

---

<sup>176</sup> Ex. DOC-23 at 25 (Jones Direct). After reviewing Xcel’s rebuttal testimony, the Department agreed that an adjustment it previously believed was a workbook calculation error was in fact an appropriate adjustment. That adjustment has been incorporated into the Department’s calculations, as noted in surrebuttal. Ex. DOC-24 at 9 (Jones Surrebuttal).

<sup>177</sup> Ex. DOC-24 at 24 (Jones Surrebuttal).

<sup>178</sup> [NOT PUBLIC DATA BEGINS . . . ██████████ . . . NOT PUBLIC DATA ENDS] Ex. Xcel-56, RLM-2 (Miller Rebuttal).

<sup>179</sup> [NOT PUBLIC DATA BEGINS . . . ██████████ . . . NOT PUBLIC DATA ENDS] *Id.*



PUBLIC DOCUMENT – NOT  
PUBLIC DATA HAS BEEN EXCISED

company’s schedules revealed that a number of estimated distributions had been omitted from the forecast.<sup>187</sup> The total in estimated or potential credits for those two years total [NOT PUBLIC DATA BEGINS . . . ██████████ . . . NOT PUBLIC DATA ENDS], respectively.<sup>188</sup> Particularly given the Commission’s order to fully develop the record on this issue, Xcel has not established that its proposal results in just and reasonable rates for Minnesota ratepayers.

Xcel has also offered completely inadequate evidence in support of its argument that Minnesota ratepayers are not negatively impacted by the Marshall Wildfire in Colorado and the 2024 Smokehouse Creek Fire Complex in Texas.<sup>189</sup> Xcel boldly argues that Minnesota customers are unaffected because it is not passing along any of the insurance premium increases *directly* attributable to those wildfires.<sup>190</sup> But the company openly acknowledges that “these wildfires . . . have changed the insurance market and raised costs for ELI coverage overall,” and the resulting overall increase in insurance costs is being passed through to Minnesota ratepayers in Xcel’s proposed rates.<sup>191</sup> Xcel recently settled litigation related to the Marshall Wildfire for \$640 million, with insurance covering slightly more than half of that cost.<sup>192</sup> As a result of wildfire losses, the insurance market has been hardening, resulting in increased costs and decreased coverage.<sup>193</sup> Wildfire-related costs are a main driver of the increase in the company’s excess liability insurance, jumping by an expected 230% in 2025 and a further 113% in 2026.<sup>194</sup> Using the Department’s

---

<sup>187</sup> Ex. Xcel-55 at 20 (Miller Direct); Ex. DOC-24 at 24 (Jones Surrebuttal).

<sup>188</sup> *Id.*

<sup>189</sup> *See* Ex. Xcel-56 at 8–9 (Miller Rebuttal).

<sup>190</sup> *Id.*

<sup>191</sup> *Id.* at 9; Evid. Hrg. Tr. Vol. 1 at 252–56 (Miller).

<sup>192</sup> Evid. Hrg. Tr. Vol. 1 at 253–254 (Miller). It is “too early to tell” what financial liabilities Xcel and its insurers may face for the 2024 Smokehouse Creek Fire Complex. *Id.* at 257–258.

<sup>193</sup> Ex. Xcel-55 at 30 (Miller Direct); Ex. Xcel-56 at 5 (Miller Rebuttal).

<sup>194</sup> Ex. Xcel-55 at 30 (Miller Direct).

proposed increases to the insurance premium expense for 2025 and 2026 shields Minnesota ratepayers from unfairly shouldering the burden of risks incurred in other jurisdictions.

**B. Xcel Has Failed to Establish that Its Inflated Compensation and Benefits Proposals Are Necessary to Deliver Reliable Service to Customers.**

The Commission should only permit Xcel to recover proposed compensation and benefits costs that the company has established are reasonably necessary to deliver safe, reliable, and affordable service to Minnesota customers. Here, Xcel has failed to provide sufficient evidence to demonstrate that some of its proposals were reasonable. In other instances, Xcel simply seeks to re-litigate long-settled Commission decisions without any material changes to its proposals. And for some of its proposals, Xcel seeks to recover the costs of pricey compensation and benefits for its most compensated executives that incentivize investor instead of ratepayer interests.

**1. Ratepayers Should Not Pay for Excessive Base Pay Expenses When Xcel Has Not Adequately Justified Its Recovery Request.**

Xcel has not adequately justified or provided the necessary clarity for its requested base pay recovery of \$367.29 million in 2025 and \$370.33 million in 2026. Xcel has not carried its burden to justify this expense because it has failed to provide full-time equivalent (“FTE”) calculations for the test and plan years and has not otherwise explained discrepancies in its base-pay calculation. Xcel, instead, insists that it cannot produce either FTEs or headcounts for the test years despite acknowledging that it uses those figures as a component of its budgeting process at the company level.

The Department makes two recommendations regarding base pay. First, to assist in future rate cases, the Department recommends that the Commission impose a requirement that Xcel include FTE counts in future rate case applications. Second, the Department recommends the Commission limit Xcel’s proposed base pay increase for 2025 and 2026 based on the approved 2024 test-year base pay, with a 3% annual increase for 2025 and 2026.

PUBLIC DOCUMENT – NOT  
PUBLIC DATA HAS BEEN EXCISED

To justify its 2025 and 2026 test year requests, Xcel claims that it calculated its base-pay using “current salary and headcount data.”<sup>195</sup> The company, however, failed to provide FTE counts for 2025 and 2026 that could be used to meaningfully analyze the reasonableness of Xcel’s proposed base-pay figures on a per employee basis.<sup>196</sup> FTE counts are a common figure in labor calculations and would allow intervenors to meaningfully assess Xcel’s base-pay calculations.<sup>197</sup> Xcel can and has provided actual FTE counts for certain years but has not provided any FTE calculations for 2025 and 2026.<sup>198</sup>

Because it was impossible to establish the reasonableness of Xcel’s base-pay calculations within the context of staffing expectations, the Department was left with two options recommending full denial or an appropriate adjustment.<sup>199</sup> Here, the Department recommends base pay amounts of \$348.16 million in 2025 and \$358.61 million in 2026.<sup>200</sup> This calculation accepts Xcel’s proposed 3% increase in each year, but starts from the 2024 approved test year amount.<sup>201</sup> This is a reasonable approach because Xcel has failed to carry its burden that its 2024 actual base-pay was reasonable, as compared with the 2024 test year amount. Xcel has acknowledge significant one-time costs in 2023 and then failed to explain why the 2024 actual base-pay exceeded the 2024 approved amount by \$15.8 million.<sup>202</sup> Given these significant one-time expenses that can impact salary trends, and Xcel’s failure to provide FTE counts to enable

---

<sup>195</sup> Ex. Xcel-28 at 26 (Robinson Rebuttal).

<sup>196</sup> Ex. DOC-4 at 10 (Kehrwald Surrebuttal).

<sup>197</sup> *Id.* at 9.

<sup>198</sup> Ex. Xcel-28 at 28 (Robinson Rebuttal).

<sup>199</sup> *In Appl. of Interstate Power Co.*, 500 N.W.2d 501, 504 (Minn. Ct. App. 1993); *In re Pet. of Continental Tel. Co.*, 389 N.W.2d 910, 914–15 (Minn. 1986).

<sup>200</sup> Ex. DOC-4 at 22 (Kehrwald Surrebuttal).

<sup>201</sup> *Id.*

<sup>202</sup> *Id.* at 19–20.

meaningful analysis, the Commission should use the 2024 approved base-pay figures, and apply the agreed 3% salary increase each year.

Accepting Xcel’s base-pay calculation, which is based on their 2024 actual base pay without sufficient explanation or FTE counts sets a dangerous precedent. Allowing recovery based on actual base pay in 2024 would permit Xcel to set the baseline for recovery of base pay, not by justifying the expense, but simply by paying it in a preceding year. The fact that Xcel’s overall proposed increase from 2025 to 2026 is below the 3% salary increase implies that there are some workforce projections impacting that analysis.<sup>203</sup> Xcel has not provided sufficient data or calculations to justify their base pay numbers. Therefore, the only reasonable approach is to use 2024 test-year base pay, increasing by 3% annually, which both sides agree is a reasonable annual salary adjustment.

The Department adjustments result in reductions to Xcel’s revenue requirement of about \$19.1 million in 2025 and \$11.7 million in 2026.<sup>204</sup>

## **2. Ratepayers Should Not Pay for Long-Term Incentive Compensation.**

Xcel requests that ratepayers pay \$23.5 million during the MYRP for long-term incentive (“LTI”) compensation for a limited group of Xcel’s employees, including Xcel executives.<sup>205</sup> Xcel seeks to recover both time-based LTI and “environmental LTI.”<sup>206</sup> No other utility in Minnesota is permitted to charge ratepayers for LTI compensation and the Commission recently denied a nearly identical request from Xcel in its last rate case.<sup>207</sup> The Commission should not change

---

<sup>203</sup> *Id.* at 24.

<sup>204</sup> Ex. DOC-4 at 22 (Kehrwald Surrebuttal).

<sup>205</sup> *Id.* at 26. Over one-third of all LTI is budgeted for the Xcel’s top-ten paid executives. *Id.* at 27.

<sup>206</sup> Ex. Xcel-62 at 23–24 (Ly Direct).

<sup>207</sup> 2021 Rate Case Order at 15.

PUBLIC DOCUMENT – NOT  
PUBLIC DATA HAS BEEN EXCISED

course to permit Xcel to recover more incentive compensation for its most compensated employees from ratepayers.

The Commission should deny Xcel's request for recovery of LTI both because of how LTI is awarded (environmental or time-based) and how it is paid (in stock). Environmental LTI is awarded based on targets for Xcel Energy as a whole, not just Northern States Power Minnesota.<sup>208</sup> Which means that even the environmental goals are not aligned jurisdictionally. Additionally, the benchmarks Xcel has set for environmental LTI awards are nothing more, and in some case less ambitious, than what is already required by state law.<sup>209</sup> When this is combined with the fact that environmental LTI is awarded only to executives, Xcel's request has even less support.<sup>210</sup> Xcel's environmental LTI awards are no more than an additional bonus paid to Xcel's most well-compensated employees for complying with environmental goals that are already mandated by law. And Xcel's time-based LTI program fares no better. Time-based LTI is awarded to employees simply for staying employed with Xcel for a certain amount of time.<sup>211</sup> These employees are already being paid for working, and ratepayers should not be required to foot the bill for additional bonuses.

Additionally, all forms of LTI incentivize employees to work to increase earnings per share, or at the very least share value, and therefore should not be recovered from ratepayers. Xcel's LTI is paid in a combination of restricted stock units and performance stock units.<sup>212</sup> This means that the value of that compensation is directly tied to the performance of Xcel's stock.<sup>213</sup>

---

<sup>208</sup> Ex. DOC-4, MBK-D-10 (Kehrwald Direct) (Xcel's response to DOC IR 178).

<sup>209</sup> *Id.* at MBK-D-11 (Xcel's response to DOC IR 179, part A).

<sup>210</sup> Ex. Xcel-62 at 27 (Ly Direct) (noting that non-executives only receive time-based LTI).

<sup>211</sup> Ex. DOC-4, MBK-S-11 (Kehrwald Surrebuttal) (Xcel's response to DOC IR 2182).

<sup>212</sup> Ex. Xcel-66, Schedule 2 at 9 (Mustich Direct).

<sup>213</sup> Evid. Hrg. Tr. Vol. 1 at 159–60 (Ly).

That necessarily aligns employee interests with shareholder interests in increasing share value.<sup>214</sup>

A stated goal of the program is ensuring that employees continue to “deliver value to the company.”<sup>215</sup> Because all LTI is paid in stock units that incentivize employees to work in shareholder – as opposed to ratepayer – interests, no LTI should be recovered from ratepayers.

Xcel attempts to distinguish its environmental LTI request by arguing that Xcel’s environmental goals benefit the public and necessitate “strategic leadership.”<sup>216</sup> Xcel’s justification, however, ignores that the public is already entitled to this benefit through Xcel’s obligation to comply with state law. Xcel’s environmental LTI program, therefore only helps provide additional bonuses to executives. While the Department supports Xcel’s carbon reduction initiatives, ratepayers should not have to pay additional bonuses to Xcel’s executives to motivate state law compliance.

The Commission should disallow Xcel’s request that ratepayers fork over almost \$24 million to pay Xcel’s already well-compensated top brass. The Commission should decrease Xcel’s requested revenue requirement by \$11.5 million in 2025 and \$12.1 million in 2026.

**3. Xcel Should Not be Permitted to Recover More for its Annual Incentive Program When It Has Ignored the Commission and Not Changed the Program.**

Xcel is requesting to charge ratepayers over \$47.6 million in 2025 and 2026 for its annual incentive program (“AIP”).<sup>217</sup> AIP is Xcel’s short-term compensation program, which is offered only to non-union employees.<sup>218</sup> While Xcel is permitted to recover costs for AIP, Xcel is requesting two changes that increase ratepayer funding of AIP costs: (1) increasing the cap on AIP

---

<sup>214</sup> *Id.*

<sup>215</sup> *Id.*

<sup>216</sup> Ex. Xcel-63 at 22 (Ly Rebuttal).

<sup>217</sup> See Ex. Xcel-62 at 21 (Ly Direct).

<sup>218</sup> *Id.*, Schedule 4 at 4 (Ly Direct).

PUBLIC DOCUMENT – NOT  
PUBLIC DATA HAS BEEN EXCISED

compensation from 15% of base pay to 20%; and (2) making the 20% cap apply to the aggregate of Xcel employees' salaries instead on an individual basis.<sup>219</sup> The Commission should reject these changes, continuing to cap AIP compensation at 15% on an individual employee basis.

Since 1992, the Commission has limited recovery for short-term incentive compensation (now called AIP) to 15% of an employee's base salary.<sup>220</sup> The Commission imposed this cap based on concerns that AIP was driven by shareholder interests. The same concerns from more than 30 years ago remain because Xcel still embeds shareholder interests in the program.<sup>221</sup> Xcel has continued to argue for a 20% cap, and to administer that cap on an aggregate basis. The Commission rejected both of these requests in the most recent rate case.<sup>222</sup> The Commission clearly articulated its concerns with Xcel's request to increase the cap to 20%: "Xcel's AIP program is subject to a dispositive earnings-per-share threshold such that no AIP is paid out if earnings per share do not reach the target level, regardless of any other performance metrics."<sup>223</sup> The Commission then noted that because of this requirement, Xcel's AIP program was not "sufficiently broadly beneficial to justify a higher percentage of recovery from ratepayers."<sup>224</sup>

Despite this clear instruction from the Commission, Xcel has stood firm, refusing to change the earnings-per-share ("EPS") threshold trigger and making no other changes to its AIP

---

<sup>219</sup> Ex. Xcel-62 at 18–19 (Ly Direct).

<sup>220</sup> *In re Appl. of N. States Power Co. for Authority to Increase Its Rates for Elec. Serv. in the State of Minn.*, E002/GR-92-1185, FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER at 25–30 (Sept. 29, 1993) (1992 Rate Case Order) (eDocket No. [355173](#)). The Commission originally denied Xcel's incentive compensation plan in full. After reconsideration the Commission allowed some incentive plan provisions to be recovered but imposed the 15% cap and required the Company to return any unpaid incentive compensation to ratepayers. See ORDER AFTER RECONSIDERATION at 7 (Jan. 14, 1994) (eDocket No. [322655](#)).

<sup>221</sup> See 1992 Rate Case Order at 28.

<sup>222</sup> 2021 Rate Case Order at 18–19.

<sup>223</sup> *Id.* at 19.

<sup>224</sup> *Id.*

PUBLIC DOCUMENT – NOT  
PUBLIC DATA HAS BEEN EXCISED

program.<sup>225</sup> Instead, Xcel again argues that it should be permitted to recover 20% of AIP, claiming the Commission authorized Minnesota Power to recover 20% of its AIP program.<sup>226</sup> The Commission has already expressly rejected this comparison because Minnesota Power does not use an EPS threshold for its AIP program.<sup>227</sup> Even Xcel’s witness on this issue eventually admitted that she lacked any insight or understanding into how Minnesota Power structured its plan.<sup>228</sup> She also did not even know whether Xcel has explored other affordability triggers as alternatives to EPS.<sup>229</sup>

Xcel’s AIP continues to incentivize employees to act in shareholders’, not ratepayers’, interests because an earnings-per-share threshold must still be met before payouts occur. As the Commission astutely observed, earnings-per-share thresholds are an “improper transfer of risk, since ratepayers bear the risks (the costs of incentive compensation) and shareholders reap the benefits (increased earnings per share).”<sup>230</sup> Because Xcel has made no changes to its AIP program since the 2021 rate case, the Commission should continue to impose the 15% cap.

Moreover, setting the 15% AIP cap on an individual employee basis remains reasonable. The Commission has been rightly concerned that awarding a large percentage of an individual’s compensation based on shareholder interests creates concerning loyalties, noting that Xcel decisionmakers in addition to maximizing shareholder value “have a duty to exercise independent

---

<sup>225</sup> Evid. Hrg. Tr. Vol. 1 at 170–71 (Ly) (testifying that Xcel did not remove the EPS threshold following the Commission’s order because it is a “prudent way to design the plan.”); Ex. Xcel-62 at 15 (Ly Direct).

<sup>226</sup> *Id.* at 13.

<sup>227</sup> 2021 Rate Case Order at 19.

<sup>228</sup> Evid. Hrg. Tr. Vol. 1 at 171–72 (Ly).

<sup>229</sup> *Id.* at 172-73.

<sup>230</sup> 1992 Rate Case Order at 28.

PUBLIC DOCUMENT – NOT  
PUBLIC DATA HAS BEEN EXCISED

judgment on behalf of the Company and to give regulators their full cooperation.”<sup>231</sup> If incentive compensation is to avoid erosion of regulatory cooperation and ensure judgment is exercised to first provide safe and reliable service, this could be undermined by Xcel’s aggregating the percentage to a few high-earners. That is, the bulk of Xcel’s non-bargaining employees could fail to meet the incentive targets, but Xcel could still fully recover 15% of all eligible employees aggregate base pay by paying a relative few high-earners 30% or even 150% of their base pay.<sup>232</sup> The Commission agreed with this argument from the Department in Xcel’s last rate case, when the Commission determined that the cap should continue to be administered on an individual basis.<sup>233</sup> Additionally, administering the cap on an aggregate basis makes it less likely that customers would receive any refund for AIP underpayment.<sup>234</sup> Administering the cap on an aggregate basis would not change how Xcel administers the program, but would simply make a refund to ratepayers less likely. The Commission should continue to set the 15% cap on an individual employee basis.

The Department’s AIP recommendation reduces Xcel’s AIP expense downward by about \$1.3 million in 2025 and \$1.3 million in 2026.<sup>235</sup>

---

<sup>231</sup> *Id.* at 28–29. While Xcel is not limited in what shareholders choose to pay for in incentivizing employees, the Commission certainly need not have ratepayers subsidize incentives that could erode regulatory compliance and cloud a focus on safe and reliable service.

<sup>232</sup> Xcel’s AIP allows for year-end payouts ranging from 0% to 150%, with incentive award potentially increasing that payout to 200%. Ex. DOC-3 at 19–20 (Kehrwald Direct).

<sup>233</sup> 2021 Rate Case Order at 19.

<sup>234</sup> Evid. Hrg. Tr. Vol. 1 at 175–76 (Ly) (testifying that if an employee does not reach the AIP cap that money would be refunded to ratepayers under the current mechanism, but would be kept by Xcel under an aggregate cap (so long as Xcel’s overall AIP payments are under the aggregate cap).).

<sup>235</sup> Ex. DOC-3 at 25 (Kehrwald Direct); Evid. Hrg. Tr. Vol. 2 at 445–448 (Kehrwald) (explaining that based on additional explanation from Xcel regarding their answers to information requests, the AIP adjustments in her direct testimony should be used over the adjustments in her surrebuttal testimony).

**4. Ratepayers Should Not Pay to Compensate XEI's Highest Paid Executives Who Work for Shareholder, not Ratepayer, Interests.**

Xcel seeks to recover from ratepayers nearly \$15 million in compensation to its ten highest-paid executives in this MYRP.<sup>236</sup> The Commission should deny recovery of all top ten executive compensation because Xcel has not carried its burden to show that such recovery from ratepayers would be reasonable.<sup>237</sup> In particular, despite numerous discovery requests, Xcel failed to produce evidence showing how these top ten executives' work could be apportioned between shareholders and ratepayers. Xcel's failure in this regard is particularly notable given that the Commission expressly identified top ten executive compensation as an issue for which the parties should develop a full factual record.<sup>238</sup>

Xcel's requested recovery is based on the simplistic theory that it must "attract, retain, and motivate" the employees necessary to provide services.<sup>239</sup> Xcel attempts to justify its recovery request through a market-compensation study comparing the total compensation packages provided to Xcel's top ten executives with top ten executives from other companies.<sup>240</sup>

Xcel's proposed justifications fail in multiple respects. Its compensation study is flawed because it is based on peers of Xcel Energy, not Northern States Power Minnesota, which is problematic.<sup>241</sup> Xcel presents no reason why ratepayers should pay for inflated salaries of Xcel Energy executives when the relevant entity in ratemaking is Northern States Power Minnesota.

---

<sup>236</sup> Ex. DOC-3, MBK-D-18 at 2 and 6 (Xcel's Revised Supplemental Response to DOC IR No. 121). These figures are inclusive of base salary, AIP capped at 20%, environmental and time-based LTI, and other compensation.

<sup>237</sup> Ex. DOC-4 at 57–58 (Kehrwald Surrebuttal).

<sup>238</sup> *In re Appl. of N. States Power Co. for Authority to Increase Its Rates for Elec. Serv. in the State of Minn.*, E-002/GR-24-320, NOTICE OF AND ORDER FOR HEARING at 2 (December 30, 2024) (Notice of and Order for Hearing).

<sup>239</sup> Ex. Xcel-62 at 35 (Ly Direct).

<sup>240</sup> Ex. Xcel-66 at 6 and Schedule 2 (Mustich Direct).

<sup>241</sup> Ex. DOC-4 at 54 (Kehrwald Surrebuttal).

PUBLIC DOCUMENT – NOT  
PUBLIC DATA HAS BEEN EXCISED

Moreover, the compensation study Xcel relies on does not speak to what portion, if any, of that salary is properly recovered from ratepayers.<sup>242</sup> Nor does it factor in what amount utility peer groups recover from ratepayers.<sup>243</sup> Moreover, when accounting for incentive-compensation (AIP and LTI) the compensation study uses the target awards instead of the actual or potential awards.<sup>244</sup> Meaning that the compensation study determines that Xcel Energy's executive compensation is competitive including executive compensation at a 100% award, ignoring the fact that executive incentive compensation can potentially be up to 200% of the target amount.<sup>245</sup>

Xcel has also failed to show that the top ten executives work in the interest of ratepayers as opposed to shareholders. This failure is glaring given that the Commission expressed significant reservations regarding this issue in Xcel's last rate case.<sup>246</sup> These executives receive large portions of their compensation through incentive compensation that is designed to incentivize maximizing investor returns.<sup>247</sup> Even the court of appeals noted that the Commission reasonably rejected Xcel's request to recover top ten executive compensation.<sup>248</sup> Similar to why AIP should be capped at 15% and LTI disallowed entirely, Xcel's top ten executive compensation package is designed to protect shareholders, not ratepayers and should be denied entirely.

While Xcel posits that its top ten executives work in the interest of all stakeholders, including ratepayers, this is not borne out. These executives are not accountable to ratepayers. They are in theory answerable to Xcel's Board of Directors.<sup>249</sup> This is, however, only theoretical

---

<sup>242</sup> Evid. Hrg. Tr. Vol. 1 at 192 (Mustich).

<sup>243</sup> *Id.*

<sup>244</sup> *Id.* at 189-90.

<sup>245</sup> *Id.*

<sup>246</sup> 2021 Rate Case Order at 21–22.

<sup>247</sup> Ex. DOC-4 at 55 (Kehrwald Surrebuttal).

<sup>248</sup> *In re Appl. of N. States Power Co. for Authority to Increase Its Rates for Elec. Serv. in the State of Minn.*, 2025 WL 249995, at \*11, No. A23-1672 (Minn. Ct. App. January 21, 2025).

<sup>249</sup> Evid. Hrg. Tr. Vol. 1 at 174.

as Xcel appears to have very limited performance evaluations of any kind for its top executives.<sup>250</sup> Xcel’s position that its compensation package is necessary to ensure high-quality, high-performing executives is belied by the fact that it appears Xcel does little to evaluate their performance other than monitor investor returns. Xcel claims that the performance of the executives are “constantly being assessed” and that written evaluations are an “important part” of the evaluation process. Yet it could not produce written assessments for eight of its top ten executives.<sup>251</sup> The Commission should not permit Xcel to recover salaries for its top-ten executives when even Xcel cannot substantiate that they are doing the job they are paid for.

The Department’s recommendation to disallow recovery for top ten executive compensation results in two different possible adjustments. Assuming no other adjustments, Xcel’s revenue requirement would be reduced by about \$7.3 million in 2025 and \$7.6 million in 2026.<sup>252</sup> Accounting for the Department’s other recommendations – including capping AIP recovery at 15% and excluding LTI – the recommended adjustment to Xcel’s revenue requirement is a reduction of about \$2.9 million in 2025 and \$3.0 million in 2026.

**5. Ratepayers Should Not Have to Pay for Xcel’s Executives’ Physicals and Financial Planning Services.**

Xcel proposes charging ratepayers \$200,000 over the two-year MYRP for limited availability perks for its executives and vice presidents.<sup>253</sup> These perks include \$6,000 for physicals and \$12,480 for financial, tax, and estate planning services.<sup>254</sup> Xcel did not discuss these perks in

---

<sup>250</sup> Ex. DOC-4 at 49 (Kehrwald Surrebuttal) (explaining that Xcel only provided written performance reviews for two of its top ten executives).

<sup>251</sup> Evid. Hrg. Tr. Vol. 1 at 177 (Ly).

<sup>252</sup> Ex. DOC-3, MBK-D-18 at 6 (Kehrwald Direct) (Xcel’s Revised Supplemental Answer to DOC IR 121) (identifying the total amount of top ten executive compensation being requested in each year).

<sup>253</sup> Ex. DOC-3, MBK-D-29 at 2 (Kehrwald Direct) (Xcel Supplemental Response to DOC R 2156).

<sup>254</sup> *Id.*, MBK-D-28 at 1 (Xcel’s response to DOC IR 124, Part B).

its direct testimony.<sup>255</sup> The Department recommended removing these perks from Xcel’s revenue requirement because these individuals are already highly compensated and these benefits simply represent additional perks above and beyond their normal compensation.<sup>256</sup>

Xcel attempts to justify these excessive perks the way it justifies all of its other compensation to its most highly compensated employees. One witness argues that it was “arbitrary” to single out specific perks and exclude them from recovery.<sup>257</sup> Another argued that these perks (like Xcel’s generous compensation packages generally) reduce the risk of turnover and help Xcel maintain market-competitive compensation packages.<sup>258</sup> Xcel has not shown, however, how this additional “gold-plating” is in the interest of ratepayers, or how these executives and vice-presidents are working for ratepayer rather than shareholder interests.<sup>259</sup>

The Department’s adjustment reduces Xcel’s revenue requirement by about \$103,000 annually.<sup>260</sup>

**6. Ratepayers Should Not Pay for Extra Benefits for Xcel’s Most Highly Compensated Employees.**

Xcel should not be allowed to recover non-qualified benefit plan expenses from ratepayers.<sup>261</sup> These expenses are paid to highly compensated individuals who exceed the Internal Revenue Service’s compensation limit for 401(k) savings matching.<sup>262</sup> The Commission has a history of disallowing these excessive benefits, and the Department recommends continuing that practice.<sup>263</sup> Xcel opposes this adjustment, but did not address these expenses in testimony or

---

<sup>255</sup> Ex. DOC-3 at 49 (Kehrwald Direct).

<sup>256</sup> *Id.*

<sup>257</sup> Ex. Xcel-67 at 11–12 (Mustich Rebuttal).

<sup>258</sup> Ex. Xcel-63 at 36–37 (Ly Rebuttal).

<sup>259</sup> Ex. DOC-4 at 63–64 (Kehrwald Surrebuttal).

<sup>260</sup> *Id.* at 64.

<sup>261</sup> Ex. DOC-3 at 48 (Kehrwald Direct).

<sup>262</sup> *Id.* at 45.

<sup>263</sup> *Id.* at 47.

provide other justification.<sup>264</sup> The Commission should continue its past practice and disallow these expenses.

The Department adjustment reduces Xcel's revenue requirement by \$44,662 in 2025 and \$48,394 in 2026.<sup>265</sup>

**7. The Commission Should Adjust Xcel's Miscellaneous Benefits, Life, and LTD Expenses to Align with Actual Expenses Instead of Inflated Forecasts.**

Xcel is seeking to recover nearly \$8 million in miscellaneous benefits, life, and LTD expenses.<sup>266</sup> The Department, after noting that Xcel's calculations were based on forecasted 2024 expenses instead of actual expenses, recommended a \$1 million reduction.<sup>267</sup> Xcel continues to oppose this adjustment, without additional explanation.<sup>268</sup>

While Xcel's miscellaneous benefits, life and LTD expenses have been flat from 2021 to 2024, Xcel's 2024 forecasted expenses exceed actual expenses by approximately \$480,000.<sup>269</sup> The Department therefore recommended an adjustment to bring these expenses in line with 2024 actual expenses, appropriately adjusted for 2025 and 2026 based on the average annual increase between 2021 and 2024.<sup>270</sup> This is a reasonable adjustment that Xcel continues to oppose without providing any explanation for why using the elevated 2024 forecasted numbers is appropriate.<sup>271</sup>

The Department's recommended adjustment reduces Xcel's revenue requirement of \$551,597 in 2025 and \$490,067 in 2026.

---

<sup>264</sup> Ex. DOC-4 at 5 (Kehrwald Surrebuttal).

<sup>265</sup> *Id.* at 6.

<sup>266</sup> Ex. DOC-3 at 42 (Kehrwald Direct).

<sup>267</sup> *Id.* at 44.

<sup>268</sup> Ex. DOC-4 at 3–4 (Kehrwald Surrebuttal).

<sup>269</sup> Ex. DOC-3 at 43 (Kehrwald Direct).

<sup>270</sup> *Id.* at 44.

<sup>271</sup> Ex. DOC-4 at 3–4 (Kehrwald Surrebuttal).

**C. Depreciation Expense Should Match the Operating Lives Approved by the Commission.**

The Commission’s general practice is to set depreciation expense using the operating lives as approved in the utility’s most recent Integrated Resource Plan (“IRP”).<sup>272</sup> The Commission should continue that practice for the company’s Monticello and Prairie Island nuclear power plants, and the Sherco 3 and King coal plants.<sup>273</sup> This recommendation is consistent with the Commission’s May 14, 2025 Order Establishing Four-Tiered Approach for Ratemaking Treatment of Early-Retiring Generating Facilities in Docket No. E002, E015, E017/CI-23-375, avoids rate shock, and balances the interests of ratepayers and the company.

The Department’s recommendation was supported by OAG, XLI, and Xcel with respect to depreciation for the nuclear power plants, which had their operating lives extended in the most recent IRP.<sup>274</sup> By extending the operating lives of these plants, the annual depreciation expense is reduced, resulting in revenue requirement reductions of about \$69.7 million and \$68.9 million for 2025 and 2026, respectively.<sup>275</sup>

The Department’s recommendation to apply the same treatment to the Sherco 3 and King coal plants, however, was opposed by the same parties who supported that treatment for the nuclear power plants.<sup>276</sup> Because the IRP shortened the operating lives of those plants, the annual depreciation expense increased, resulting in revenue requirement increases of about \$58.8 million and \$55.4 million for 2025 and 2026, respectively.<sup>277</sup> When combined with the recommended

---

<sup>272</sup> 2021 Rate Case Order at 11.

<sup>273</sup> Ex. DOC-23 at 14 (Jones Direct).

<sup>274</sup> See Ex. DOC-24 at 6 (Jones Surrebuttal).

<sup>275</sup> *Id.*

<sup>276</sup> See *id.* at 13 (Jones Surrebuttal).

<sup>277</sup> *Id.*

PUBLIC DOCUMENT – NOT  
PUBLIC DATA HAS BEEN EXCISED

adjustments to the nuclear plants, there is a net negative impact to the revenue requirement, with reductions of about \$10.9 million and \$13.6 million.<sup>278</sup>

The Department highlighted the important benefits the Commission can secure by adjusting the depreciation expense for both the nuclear and coal plants at the same time.<sup>279</sup> The significant increase in depreciation expense for the Sherco 3 and King coal plants could easily cause rate shock if not paired with the significant decrease in depreciation expense for the Monticello and Prairie Island nuclear plants.<sup>280</sup> Adjusting the depreciable lives to match the operating lives is the Commission's common practice in these matters, and is consistent with the Commission's order requiring a four-tiered approach for ratemaking treatment of early retiring facilities, which provides that changes in ratemaking treatment be handled in rate cases.<sup>281</sup> Aside from being common practice, this approach has the benefit of avoiding the intergenerational inequities and extra avoidable expense that would result from regulatory asset treatment.<sup>282</sup> To facilitate review of depreciation requests in future rate cases, the Department further recommends that depreciation materials be filed 60 days before future rate case filings.<sup>283</sup>

OAG and XLI argued that the rate impact of shortening the depreciation lives of the coal plants could cause rate shock, and should be analyzed independently of the impact of extending

---

<sup>278</sup> *Id.*

<sup>279</sup> *Id.* at 18–19.

<sup>280</sup> *Id.* at 19 (Jones Surrebuttal).

<sup>281</sup> *Id.* at 18–19 (Jones Surrebuttal); *In re Comm'n Inquiry into the Ratemaking Treatment for Early Retiring Generating Facilities Owned by Regul. Elec. Util.*, MPUC Docket No. E002, E015, E017/CI-23-375, ORDER ESTABLISHING FOUR-TIERED APPROACH FOR RATEMAKING TREATMENT OF EARLY-RETIRING GENERATING FACILITIES at Order Point 3 (May 14, 2025) (Four-Tiered Ratemaking Order).

<sup>282</sup> Ex. DOC-24 at 19–20 (Jones Surrebuttal).

<sup>283</sup> Ex. DOC-24 at 22 (Jones Surrebuttal). Xcel agreed to the Department's request to provide this material, but requested that it only be required to provide the material 30 days before a rate case filing. Ex. Xcel-86 at 5 (Moeller Rebuttal).

PUBLIC DOCUMENT – NOT  
PUBLIC DATA HAS BEEN EXCISED

the depreciation lives of the nuclear power plants.<sup>284</sup> Although OAG notes the Commission’s order in Docket No. 23-375 requires consideration of rate shock, nothing in the order suggests that the rate-shock analysis should be done in isolation, rather than in the overall context of a rate case, where the Commission ordered such analysis to occur.<sup>285</sup> XLI, meanwhile, argued that if accelerated depreciation is not viewed in isolation, the utility “could claim a multitude of ‘offsets’ as a reason to accelerate depreciation.”<sup>286</sup> The Department appreciates XLI’s concern about utilities claiming unreasonable offsets as a way to increase rates beyond what might otherwise be allowed.<sup>287</sup> Consistently aligning depreciable lives to match operational lives, however, is a principled approach with significant barriers against gamesmanship, and it is unclear how this approach would give utilities carte blanche to capture decreases in revenue requirements that should flow to customers. Nor is Xcel’s proposal to defer the issue by creating a regulatory asset in the best interests of ratepayers. In fact, Xcel’s proposal would leverage the asymmetrical adjustment of depreciation lives to mask its substantial requested increase in rates in this case, while setting itself up to collect \$63 million more in shareholder profits than it would under the Department’s proposal.<sup>288</sup>

OAG also expressed concern that the Department’s recommendation could lead to intergenerational inequities if the coal plants’ operating lives are extended later, and recommended the Commission instead consider regulatory asset treatment for the coal plants at the time of their

---

<sup>284</sup> Ex. OAG-RUD-6 at 5 (Lee Rebuttal); Ex. XLI-5 at 8–9 (LaConte Rebuttal).

<sup>285</sup> See generally Four-Tiered Ratemaking Order.

<sup>286</sup> Ex. XLI-5 at 8–9 (LaConte Rebuttal).

<sup>287</sup> See generally *In re Xcel Energy’s Petition for Approval of its 2023 Annual Fuel Forecast and Monthly Fuel Cost Charges*, Docket No. E-002/AA-22-179, Initial Brief of the Minn. Dep’t of Com. at 13–23 (Nov. 25, 2025).

<sup>288</sup> Ex. DOC-24 at 19–20 (Jones Surrebuttal).

retirement.<sup>289</sup> Although this is a possibility, it is illogical to commit to engaging in intergenerational inequalities based on the present circumstances because of the possibility that changed circumstances in the future could call for a different outcome.

Xcel expressed concern that implementing accelerated depreciation for the coal plants could prevent the company from having the opportunity to fully recover additional costs in rates because the accelerated depreciation expense is not included in interim rates.<sup>290</sup> This concern only heightens the importance of the Department’s recommendation, which results in a net decrease to depreciation expense and therefore rates, circumstances which may not occur in future rate cases and leave the parties and the Commission with fewer options for balancing the competing interests identified in the Four-Tiered Ratemaking Order.

**D. Xcel Should Bear the Adverse Consequences of Its Power Plant Outages.**

Utility ratemaking principles dictate that customers should not have to pay for utility equipment that is not “used and useful” during the test year. Applying these principles, Xcel’s Riverside Generating Unit should be removed from rate base on a pro-rata basis for the portions of the 2025 and 2026 test years that it will be out of service, consistent with the Commission’s decision following the Sherburne County Generating Plant (“Sherco”) Unit 3 outage.

In April 2025, Xcel’s Riverside plant experienced a mechanical failure that caused the unit to trip and remain offline.<sup>291</sup> The plant is not expected to return to service until the summer of 2026.<sup>292</sup> The “used and useful” test, however, requires that utility property be both “in service” and “reasonably necessary to the efficient and reliable provision of utility service.”<sup>293</sup> Riverside

---

<sup>289</sup> Ex. OAG-RUD-6 at 5, 10 (Lee Rebuttal).

<sup>290</sup> Ex. Xcel-19 at 53 (Halama Rebuttal).

<sup>291</sup> Ex. DOC-1 at 46 (Johnson Direct).

<sup>292</sup> *Id.*

<sup>293</sup> 2012 Rate Case Order at 46 (accepting the ALJ report except as expressly modified); *In re N. States Power Co. for Auth. to Increase Rates for Elec. Serv. in the State of Minn.*, Docket No.

PUBLIC DOCUMENT – NOT  
PUBLIC DATA HAS BEEN EXCISED

cannot meet the first element of the “used and useful” test because it undisputedly will not be “in service” for the entirety of the 2025 and 2026 test years. As a result, it would be inconsistent with the “used and useful” test to permit Xcel a full rate base return for Riverside. Instead, the Commission should follow the logic of its decision following the Sherco Unit 3 outage.

In November 2011, Xcel’s Sherco Unit 3 experienced an accident resulting in an extended outage.<sup>294</sup> In Xcel’s 2012 rate case, the Commission:

- removed all direct Sherco 3 costs, except property taxes, from the 2013 test year;
- permitted Xcel to defer the unit’s 2013 depreciation expense; and
- deferred questions about whether Xcel had prudently incurred replacement power costs to a future fuel cost adjustment proceeding.<sup>295</sup>

Consistent with that decision, the Commission should similarly remove Riverside from rate base for the portions of the 2025 and 2026 test years when it will not be in-service but permit recovery of property taxes and depreciation expense.<sup>296</sup> This adjustment reduces Xcel’s proposed revenue requirement by about \$9.9 million for 2025 and \$7.2 million for 2026.<sup>297</sup> Finally, the Commission should order a contested-case proceeding, where engineering analysis may occur, to evaluate whether Xcel prudently incurred replacement power costs during the Riverside outage.<sup>298</sup>

---

E002/GR-12-961, FINDINGS OF FACT, CONCLUSIONS, & RECOMMENDATION at 23 (July 3, 2013) (citing *Senior Citizens Coalition of N. Minn. v. MPUC*, 355 N.W.2d 295 (Minn. 1984)).

<sup>294</sup> *In re N. States Power Co. for Auth. to Increase Rates for Elec. Serv. in the State of Minn.*, Docket No. E002/GR-12-961, FINDINGS OF FACT, CONCLUSIONS, & ORDER at 20 (Sept. 3, 2013).

<sup>295</sup> *Id.*

<sup>296</sup> Ex. DOC-2 at 30 (Johnson Surrebuttal).

<sup>297</sup> *Id.*

<sup>298</sup> *Id.* at 29.

**E. Because Xcel’s Interest in the Prepaid Pension Asset Lacks Value, the Commission Should Either Deny Xcel a Return or Significantly Limit It.**

It is undisputed that Xcel is entitled to a return on the value of the prepaid pension asset.<sup>299</sup>

The issue that the Commission must address is the value of Xcel’s interest in that asset for ratemaking purposes. According to Xcel, the prepaid pension asset is the value of qualified pension plan contributions in excess of actuarially calculated pension expense.<sup>300</sup> Xcel asserts that the prepaid pension asset is worth \$90.2 million in 2025 and \$85.6 million in 2026 in net rate base, resulting in \$9.6 million and \$9.1 million revenue requirements in 2025 and 2026, respectively.<sup>301</sup>

Xcel claims it is entitled to a return on the value of the entire asset. Xcel’s claim relies on two flawed premises. First, Xcel presumes that the value of its interest in the prepaid pension asset is identical to the asset’s total value. Second, Xcel presumes that the pension trust asset shares identical characteristics of other rate base assets and, therefore, is entitled to the same regulatory treatment. But neither presumption holds water.

**1. Xcel only has a contingent reversionary interest in pension trust property of nominal or no value.**

Under the Employee Retirement Income Security Act (“ERISA”), Xcel’s pension plan contributions must be held in trust.<sup>302</sup> Consistent with common-law trust principles,<sup>303</sup> ERISA requires that pension trust assets be used exclusively for beneficiaries (as opposed to settlors or

---

<sup>299</sup> *In re Appl. by N. States Power Co.*, No. A23-1672, 2025 WL 249995, at \*9 (Minn. Ct. App. Jan. 21, 2025) (citing *In re Appl. by Minn. Power for Auth. to Increase Rates for Elec. Serv.*, 12 N.W.3d 477, 493 (Minn. App. 2024) (holding the Commission must give “due consideration” to a utility’s mandatory contributions to pension plans in determining the utility’s rate base.))

<sup>300</sup> Ex. Xcel-57 at 55 (Schrubbe Direct).

<sup>301</sup> Ex. DOC-11, SDH-S-6 (Hunt Surrebuttal).

<sup>302</sup> 29 U.S.C. § 1103(a); ERISA Practice and Litigation § 7:3; Evid. Hrg. Tr. Vol. 1 at 203 (Schrubbe).

<sup>303</sup> A trust instrument creates a fiduciary relationship with respect to property. *Sec. Bank & Tr. Co. v. Larkin, Hoffman, Daly & Lindgren, Ltd.*, 916 N.W.2d 491, 501 (Minn. 2018). A person, the trustee, holds legal title to trust property, sometimes called the *res* or corpus, for the benefit of another, the beneficiary, who holds equitable title to the property. *Id.*

PUBLIC DOCUMENT – NOT  
PUBLIC DATA HAS BEEN EXCISED

trustees).<sup>304</sup> There are only three exceptions to this rule. Only one of them is relevant.<sup>305</sup> If a single-employer plan is terminated and all liabilities of the plan beneficiaries have been satisfied, then any residual assets may be distributed to the employer.<sup>306</sup> These legal requirements preclude an employer from maintaining more than a contingent reversionary interest in pension trust property.

Xcel has only a limited interest in pension trust property. Reflecting ERISA requirements, both of Xcel's pension trust agreements require that pension trust funds be held "separate and apart" from employer assets and prohibit their use for "purposes other than for the exclusive benefit of Beneficiaries."<sup>307</sup> And Xcel may only access residual pension trust funds after satisfying liabilities to plan beneficiaries.<sup>308</sup> Given these limitations, Xcel agrees it is not a beneficiary.<sup>309</sup> It therefore holds no equitable title in the trust property.<sup>310</sup> Nor does Xcel hold legal title to the trust property. To hold legal title, Xcel must serve as trustee.<sup>311</sup> But here, Principal Financial Services serves as trustee.<sup>312</sup> The upshot is that Xcel cannot credibly claim a fee simple interest in pension

---

<sup>304</sup> 29 U.S.C. § 1103(c)(1) (prohibiting prohibits plan assets from "inur[ing] to the benefit of any employer.").

<sup>305</sup> The other exceptions permit an employer to withdraw plan assets if a contribution is made by mistake, 29 U.S.C. § 1103(c)(2), or if a contribution is conditioned on qualification of the plan by the IRS for tax deductibility. *Id.*, (b)-(c).

<sup>306</sup> 29 U.S.C. § 1344(d)(1); *Dame v. First Nat. Bank of Omaha*, 217 F.3d 1018, 1020 (8th Cir. 2000) (affirming that funds remaining in single-employer pension plan after its termination reverted to employer).

<sup>307</sup> Ex. DOC-11, SDH-S-5 at 92, 266 (Hunt Surrebuttal).

<sup>308</sup> *Id.* at 78, 252.

<sup>309</sup> Ex. DOC-11, SDH-S-4 at 2 (Hunt Surrebuttal).

<sup>310</sup> *Sec. Bank & Tr. Co.*, 916 N.W.2d at 501.

<sup>311</sup> *Id.*

<sup>312</sup> Ex. DOC-11, SDH-S-4 at 2 (Hunt Surrebuttal); Evid. Hrg. Tr. Vol. 1 at 204 (Schrubbe) ("Q. You agree that Xcel is not a plan participant, right? A. That's correct. Q. Nor otherwise a beneficiary of the trust? A. No, . . . we're a fiduciary responsible. Q. And Xcel's not the trustee either? A. No. Q. That's . . . Principal Financial Services? A. That's correct.").

PUBLIC DOCUMENT – NOT  
PUBLIC DATA HAS BEEN EXCISED

trust property. Xcel’s interest is far less. It has an interest in residual assets, if any, at the time of trust termination. This is, at most, a contingent reversionary interest.<sup>313</sup>

The value of Xcel’s interest in the prepaid pension asset is small. As a rule, even when reversionary interests are extinguished, they typically only have nominal—and often no ascertainable—value unless the interest will be realized soon.<sup>314</sup> Here, Xcel concedes that its contingent reversionary interest is unlikely to be realized soon. Xcel intends to continue operating the pension trust in perpetuity.<sup>315</sup> And even if Xcel did intend to terminate the trust, it would be impossible to reliably calculate the value of its interest now.<sup>316</sup> Such a calculation would depend on too many contingencies such as life expectancy, investment returns, and discount rates.<sup>317</sup> In short, the value of Xcel’s interest in the prepaid pension asset is nominal or valueless as a matter of law.

---

<sup>313</sup> Restatement (Third) of Property § 25.2 (2011) (“A future interest is either a reversion or a remainder. A future interest is a reversion if it was retained by the transferor. A future interest is a remainder if it was created in a transferee.”).

<sup>314</sup> 28 Am. Jur. 2d *Estates* § 189 (2020) (“Generally, a possibility of reverter has no ascertainable value when the event upon which the possessory estate in fee simple defeasible will end is not likely to occur in the near future.”); Restatement (First) of Property § 53 (1936) (treating the owner of an estate in fee simple defeasible as identical with that of an owner of a estate in fee simple absolute for purposes of eminent domain); *see also United States v. Certain Land in Cook Cnty., State of Minn.*, 248 F. Supp. 681, 682–83 (D. Minn. 1965) (explain that the owner of reversionary interest is ordinarily only entitled to “nominal compensation” when that interest is extinguished); *State by Mondale v. Indep. Sch. Dist. No. 31*, 123 N.W.2d 121, 129–30 (Minn. 1963) (holding that “the owner of a possibility of a reverter” is typically only entitled to nominal compensation upon being extinguished except where abandonment of the current use is imminent or would have greater market value if devoted to another use); *Leeco Gas & Oil Co. v. Nueces Cnty.*, 736 S.W.2d 629, 630–31 (Tex. 1987) (explain that “a mere possibility of reverter has no ascertainable value when the event upon which the possessory estate in fee simple defeasible is to end is not probable within a reasonably short period of time”); *6810 S. Hazel St. LLC v. Jefferson Hosp. Ass’n Inc.*, No. 5:19-CV-00322-LPR, 2020 WL 7028704, at \*2 (E.D. Ark. Nov. 30, 2020) (explaining that the ascertainable value of a reverter interest is generally nominal with limited exceptions)

<sup>315</sup> Evid. Hrg. Tr. Vol. 1 at 208 (Schrubbe).

<sup>316</sup> *Id.* at 209 (Schrubbe).

<sup>317</sup> *Id.*

PUBLIC DOCUMENT – NOT  
PUBLIC DATA HAS BEEN EXCISED

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

**2. If the Commission does not deny Xcel a return entirely, it should limit that return to reflect the nominal value of the company's interest.**

Although Xcel is not entitled to any return, if the Commission decides nonetheless to grant the company a return, the rate of return should not exceed Xcel's long-term cost of debt.<sup>318</sup> Using the long-term cost of debt instead of the weighted average cost of capital customarily applied to rate base assets is appropriate for several reasons. As discussed above, Xcel has only a limited interest in the prepaid pension asset. Beyond Xcel's limited interest, prepaid pension assets are materially distinct from other rate base assets. And finally, using the long-term cost of debt would be more consistent with relevant policy goals.

Prepaid pension lacks the characteristics of other rate base assets.<sup>319</sup> The cost of most rate base assets are fully known and paid upfront at the time the asset is placed in rate base.<sup>320</sup> These costs are recovered from customers through depreciation and a return built into rates over a predictable period.<sup>321</sup> In contrast, prepaid pension assets represent a balancing account that increases where pension contributions exceed expenses and declines where pension contributions are less than expenses.<sup>322</sup> Put differently, most rate base assets reflect a one-time capital outlay to construct or purchase a physical object that declines in value as it ages into obsolescence, but prepaid pension assets fluctuate in value based on timing differences.

---

<sup>318</sup> Ex. DOC-11 at 15 (Hunt Surrebuttal).

<sup>319</sup> *Id.* at 7.

<sup>320</sup> *Id.*

<sup>321</sup> *Id.*

<sup>322</sup> *Id.* at 8.

Limiting Xcel’s return to the long-term cost of debt also advances important policy goals. Xcel is entitled to recover its cost of service, but not a windfall. Allowing Xcel to earn a return not exceeding the long-term cost of debt would allow Xcel to recover its cost of service. Indeed, the permitted recovery would almost certainly *exceed* the required return given the value of Xcel’s limited interest. Using the long-term cost of debt would, moreover, discourage the company from making excessive contributions above the minimum necessary threshold required by ERISA.<sup>323</sup>

For these reasons, the Commission should deny Xcel any recovery. In the alternative, the Commission should limit Xcel’s recovery to no more than \$5.7 million in 2025 and \$5.4 million in 2026 using the company’s long-term debt cost:

**Department Prepaid Pension Recommendation<sup>324</sup>**

	2025	2026
Xcel Proposed Recovery	\$9,568,354	\$ 9,076,936
Department Recommendation	\$0 to \$5,708,106	\$0 to \$5,446,161

**F. The Commission Should Continue Requiring Xcel to Set its General Allocator Using FTEs Instead of the Number of Employees.**

XES employees perform work that benefits multiple jurisdictions, including several states, regulated and non-regulated operations, and both the gas and electric operations in Minnesota. To account for work that cannot be directly assigned to one of these operations, Xcel must use allocators.<sup>325</sup> Xcel requests to change its allocation method to account for employee work in its Minnesota jurisdiction from full-time equivalents to using the number of employees. Since 2011, the Commission has rejected Xcel’s arguments and required Xcel to use FTE hours. It should not modify that treatment now.

---

<sup>323</sup> *Id.*

<sup>324</sup> Ex. DOC-11, SDH-S-6 (Hunt Surrebuttal).

<sup>325</sup> Ex. DOC-1 at 33–34 (Johnson Direct).

PUBLIC DOCUMENT – NOT  
PUBLIC DATA HAS BEEN EXCISED

Following Xcel’s 2008 rate case, the Commission investigated Xcel’s three-part allocation method, which used the number of employees as its labor component.<sup>326</sup> The Commission ultimately ordered Xcel to use FTEs instead of the number of employees.<sup>327</sup> The Commission explained that using the number of employees “results in no labor-related costs being allocated to unregulated subsidiaries that do not have their own payrolls. This is unreasonable on its face, since no business can have a labor cost of zero.”<sup>328</sup> The Commission also noted that “allocating the full costs of each employee to the subsidiary on whose payroll he or she appears overstates the labor costs of that subsidiary and understates the labor costs of any other subsidiary for whose benefit the employee occasionally performs services.”<sup>329</sup>

In this case, the Commission should again reject Xcel’s proposal to shift back to the number of employees methodology. Xcel asserts that its preferred methodology provides a more stable, consistent, and simpler metric for assigning service company employee costs.<sup>330</sup> Xcel’s justification notably does not alleviate the concerns that the Commission has identified since 2011—that the number of employee methodology is too crude to accurately reflect labor costs.<sup>331</sup> Requiring Xcel to continue to use the FTE methodology reduces the utility’s test year revenue requirements by \$6.3 million in 2025 and \$6.5 million in 2026.<sup>332</sup>

---

<sup>326</sup> See *In re N. States Power Co.’s Cost Allocation Procedures and General Allocator*, E,G-002/AI-10-690, ORDER REQUIRING CHANGE IN GENERAL ALLOCATOR AND REQUIRING FILINGS (Mar. 15, 2011) (eDocket No. [20113-60362-01](#)).

<sup>327</sup> *Id.* at 4.

<sup>328</sup> *Id.* at 1–2 (quoting 2008 Rate Case Order at 20).

<sup>329</sup> *Id.*

<sup>330</sup> Ex. Xcel-49 at 16–17 (Doyle Direct).

<sup>331</sup> Ex. DOC-2 at 10–11 (Johnson Surrebuttal).

<sup>332</sup> *Id.* at 11.

**G. Xcel’s Distribution Vegetation Management Budget is Inflated and Lacks Record Support.**

Xcel proposes annual budgets of \$37.4 million in 2025 and \$40.9 million in 2026 for distribution system vegetation management.<sup>333</sup> Vegetation management refers to controlling the growth of and removing trees, shrubs, and other plants that grow too close to electrical lines and other utility infrastructure.<sup>334</sup> While vegetation management is necessary for safe and reliable utility service, Xcel’s proposed budgets include significant and unsupported increases.

The Commission should not approve Xcel’s vegetation management budgets as proposed. The 2025 budget is 22% greater than Xcel’s 2024 actual spending and the 2026 budget is 9% greater than the 2025 proposal.<sup>335</sup> And Xcel has underspent its vegetation management budgets every year since at least 2022, as shown below.<sup>336</sup>

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

In short, this experience shows that Xcel’s actual spending has varied significantly and that the company cannot accurately forecast its costs. Moreover, Xcel’s actual spending in 2025 demonstrated that its proposed budget was unreasonable.<sup>337</sup> Through September 2025, Xcel had only spent \$20.1 million. Annualizing this spending suggested that Xcel was only on pace to spend

---

<sup>333</sup> Ex. DOC-7 at 16 (Uphus Direct).

<sup>334</sup> *Id.*

<sup>335</sup> *Id.* at 17.

<sup>336</sup> *Id.* at 19.

<sup>337</sup> Ex. DOC-8 at 11 (Uphus Surrebuttal).

\$26.8 million for the entire year. And even this amount is inflated because a significant portion of vegetation management likely occurs in the warmer months of the year.<sup>338</sup>

Given these deficiencies, the Commission should approve 3% inflationary increases over 2024 actual spending for 2025 and 2026.<sup>339</sup> These adjustments would result in budgets of \$31.6 million in 2025 and \$32.6 million in 2026, reducing Xcel's revenues requirement by \$5.8 million and \$8.3 million in the respective test years.<sup>340</sup>

**H. Outside Services Should Reflect Recent Actual Expenses and Reasonable Increases in Costs.**

Xcel proposes charging ratepayers \$26.8 million in 2025 and \$25.8 million in 2026 to cover the expected costs of professional services such as legal, accounting, or managerial assistance.<sup>341</sup> These proposals amount to an approximately 26% increase over the budgets approved in Xcel's last rate increase.<sup>342</sup> The proposed increases are even larger when compared to Xcel's actual expenses in recent years. The proposed 2025 test year expense is 41.7% higher than the average expense from 2022 through 2024, while the 2026 plan year expense is 36.6% higher.<sup>343</sup> Xcel has failed to demonstrate it needs these staggering increases.

Since its last rate case, Xcel's actual expenses were lower than the test year expense every year, totaling \$5.6 million more in recovery from ratepayers than was spent on outside services.<sup>344</sup> The conclusory assertions offered as the explanation for the inaccuracy of the company's prior forecasts and the basis for the substantial increase in expenses are inadequate. Moreover, the actual 2025 expenses available in the record trended significantly lower than both the 2025 test year

---

<sup>338</sup> *Id.*

<sup>339</sup> Ex. DOC-7 at 20 (Uphus Direct).

<sup>340</sup> *Id.*

<sup>341</sup> Ex. DOC-5 at 14 (Golden Direct); 18 C.F.R. § 367.9230(a).

<sup>342</sup> Ex. DOC-5, ARG-D-4 at 3 (Golden Direct)

<sup>343</sup> Ex. DOC-5 at 16 (Golden Direct).

<sup>344</sup> *Id.* at 14–15.

PUBLIC DOCUMENT – NOT  
PUBLIC DATA HAS BEEN EXCISED

projections and the company's 2024 actual expenses.<sup>345</sup> Annualizing the provided figures, Xcel was on track to spend \$18.9 million on outside services, which is not only significantly below the 2025 test year budget, but also the 2024 actuals of \$20.96 million and the Department's 2025 test year recommendation of \$22.5 million.

Given the lack of direct testimony on the more than \$25 million in annual proposed outside services expenses offered by Xcel, the Department's initial review focused on the forecast and actual expenses for this category since the most recent rate case.<sup>346</sup> When asked to explain differences greater than 5% between the forecasted amounts and actual expenses from 2022 through 2024, Xcel pointed solely to unexpectedly low legal expenses in 2022 and 2023.<sup>347</sup> The company also noted that it "experienced historically low outside legal services costs in 2024" but "assum[ed]" that outside legal services costs "would return to the amount the Company has historically spent."<sup>348</sup>

Xcel's explanation for the magnitude of the increases in the 2025 and 2026 forecast above 2024 actuals is no more persuasive. To support a higher legal services expense than justified by its actual recent expenses, Xcel started with "a historical average based on 2017 – 2023 actuals."<sup>349</sup> Yet this is exactly the sort of inappropriate cherry-picking of isolated services that Xcel inveighed against as "an unsound way to analyze the Company's expenses" because it "ignore[es] the ups and downs" of other services in this category.<sup>350</sup> Xcel has offered no information on what would happen to the other expenses in the outside services category if this timeframe were similarly

---

<sup>345</sup> Ex. DOC-6 at 14 (Golden Surrebuttal).

<sup>346</sup> See Ex. DOC-5 at 14 (Golden Direct). Xcel Witness Gregory Robinson provided rebuttal testimony on the company's Outside Service O&M expenses.

<sup>347</sup> Ex. DOC-5 at 15, ARG-D-4 at 1 (Golden Direct) (Xcel Response to DOC IR 2112).

<sup>348</sup> *Id.* at 1–2.

<sup>349</sup> *Id.* at 1.

<sup>350</sup> Ex. Xcel-28 at 19 (Robinson Rebuttal).

applied, nor has it offered any explanation for why it is appropriate to exclude the most recent year for which full year actual expenses are available. Xcel’s recommended approach “serves no purpose other than to arbitrarily [increase] the Company’s overall recovery.”<sup>351</sup>

Xcel also stated that in addition to increasing its anticipated spending on legal services, that the key drivers were “Technology Services, Enterprise Security Services and the initiation of the wildfire mitigation program.”<sup>352</sup> Despite the Department’s invitation to provide information supporting the requested expense, Xcel did not provide any additional support or explanation for these items.<sup>353</sup>

Based on Xcel’s history of over-forecasting this expense, the lack of any meaningful explanation for the large increase over the 2024 actual expenses, and the first quarter actual expenses in 2025 trending even lower than its 2024 actuals, the Department recommended setting the 2025 test year expense at Xcel’s 2024 actual expense, increased by 7.5%, and increasing that amount another 7.5% for the 2026 plan year.<sup>354</sup>

**I. Property Tax Expenses Should Be Set Using Historical Averages Because Year-to-Year Changes Vary Significantly and Unpredictably.**

While the Department agrees that Xcel should continue its property tax true-up, Xcel did not support its forecasts for the 2025 and 2026 baseline property taxes. Therefore, the Department’s property tax expert recommended use of more reasonable figures.

The property tax true-up allows Xcel to surcharge or refund amounts when the actual property taxes for a given year do not match the approved baseline in this proceeding.<sup>355</sup> This true-

---

<sup>351</sup> Ex. Xcel-28 at 19 (Robinson Rebuttal).

<sup>352</sup> Ex. DOC-5, ARG-D-4 at 2 (Golden Direct) (Xcel Response to DOC IR 2112).

<sup>353</sup> *See id.* Although Xcel later asserted that it had “provided ample information elsewhere,” the company did not provide so much as a single citation as to where this supposedly robust support could be found. Ex. Xcel-28 at 23 (Robinson Rebuttal), Ex. DOC-6 at 14 (Golden Surrebuttal).

<sup>354</sup> Ex. DOC-5 at 17 (Golden Direct).

<sup>355</sup> Ex. Xcel-51 at 22–23 (Kowalowski Direct).

PUBLIC DOCUMENT – NOT  
PUBLIC DATA HAS BEEN EXCISED

up guarantees that Xcel recovers its property taxes and protects ratepayers from overpayment.<sup>356</sup> Ensuring that the baseline amount is accurate remains important to reduce wide swings in rates. To set the baseline, in its November 2024 direct testimony, Xcel provided forecasted property tax expense for its MYRP.<sup>357</sup> Xcel's 2025 and 2026 forecasts continue to be unreasonably high. Because Xcel has failed to support the extreme increases in its forecasted property tax expense, the Department recommends using a 2% annual increase to estimate property tax for 2025 and 2026.<sup>358</sup>

Xcel's property tax forecasts lack support and contains numerous flaws.<sup>359</sup> Indeed, Xcel has historically overestimated property tax expense and, therefore, over-collected property tax expenses from ratepayers every year going back to 2017.<sup>360</sup> These excess collections have been significant, ranging from a low of \$6.8 million in 2017 to a high of \$21.2 million in 2023, with refunds totaling \$102.5 million from 2017 through 2025.<sup>361</sup> While these amounts are refunded to ratepayers, the money is not remitted until the following year, taking money out of ratepayers' pockets in the meantime. Given these continued deficiencies, Xcel's forecasted property tax expense for 2025 and 2026 are unreasonable and should not be used to set the property tax true-up baseline.

Xcel took issue with the Department's use of historical data to forecast property tax expense. But Xcel could not support why both its initial and updated forecasts were so out-of-sync

---

<sup>356</sup> Ex. DOC-24 at 4–5 (Jones Surrebuttal). Notably the Department agreed not to limit surcharges when property taxes exceed the baseline, guaranteeing recovery of Xcel's costs. *Id.*

<sup>357</sup> See Ex. Xcel-51 (Kowalowski Direct).

<sup>358</sup> Ex. DOC-24 at 10, 13 (Jones Surrebuttal).

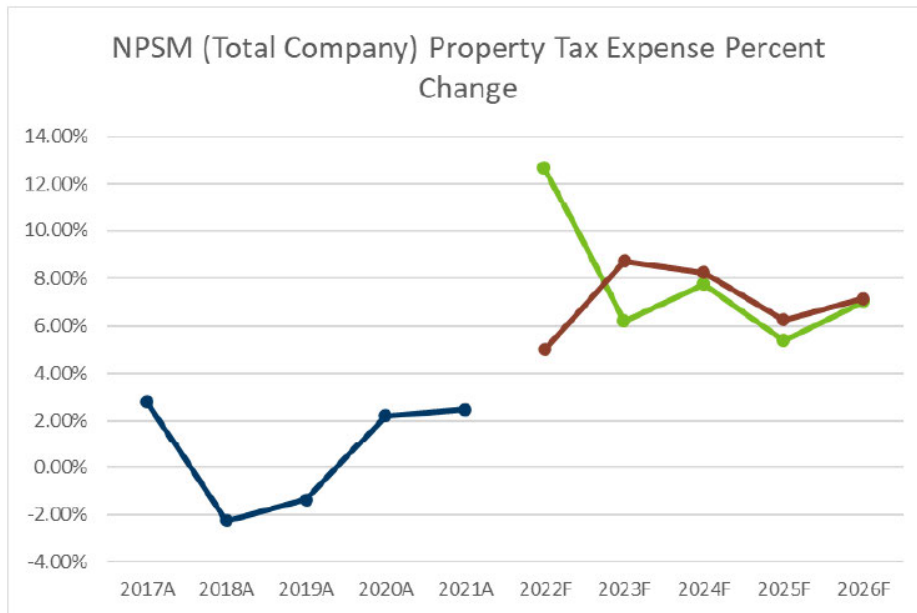
<sup>359</sup> See Ex. DOC-23 at 10–24 (Jones Direct); Ex. DOC-24 at 34–42 (Jones Surrebuttal).

<sup>360</sup> Ex. DOC-23 at 9, HDJ-D-3 (Jones Direct).

<sup>361</sup> *Id.* at 13, HDJ-D-3 (Jones Direct).

with experience, as shown by the chart below that plots the actual property tax expense in blue, Xcel initial forecast in green, and Xcel’s updated forecast in red:<sup>362</sup>

Chart 2: NSPM Total Company Property Tax Expense, Percent Change<sup>53</sup>



The Commission regularly uses historical expenses to guide its fact-finding on the reasonableness of forecasted expenses. In particular, it often takes this approach when “costs fluctuate from year to year based on multiple factors beyond the Company’s control and are difficult to predict.”<sup>363</sup>

The Department reviewed historical trends in the local property tax rate, property tax expense, and net investment and determined that a 2% annual increase in 2025 and 2026 was appropriate.<sup>364</sup>

The Department’s recommendation is conservative given the average annual increase in Xcel’s property tax in the Minnesota electric jurisdiction from 2020–2024 was a mere 0.47%.<sup>365</sup>

<sup>362</sup> Ex. DOC-23, HDJ-D-4 (Jones Direct).

<sup>363</sup> 2021 Rate Case Order at 69; 2020 Otter Tail Rate Case Order at 13; *In re Appl. of Minn. Power for Auth. to Increase Rates for Elec. Serv. in Minn.*, MPUC Docket No. E-015/GR-16-664, FINDINGS OF FACT, CONCLUSIONS, & ORDER at 19, 37, and 39 (Mar. 12, 2018) (eDocket No. [20183-140963-01](#)) (MP 2016 Rate Case Order).

<sup>364</sup> Ex. DOC-23 at 11 (Jones Direct).

<sup>365</sup> *Id.*

The Department’s alternative property tax expense forecast is reasonably grounded in historical data and provides a more realistic baseline for Xcel’s property tax true-up. A more accurate baseline provides rate stability to customers by mitigating wide swings in refunds and surcharges. The Commission should use this alternative forecast in setting property tax expense in this proceeding, resulting in a \$3.2 million reduction to the property tax expense in the 2025 test year and an \$11.8 million reduction to the property tax expense in the 2026 plan year.<sup>366</sup>

**J. Minnesota Customers Should Not Subsidize Xcel’s Indirect Wildfire Costs Incurred Elsewhere.**

In addition to other wildfire mitigation costs, Xcel incurs some wildfire costs at the XES-level that cannot be directly assigned to an operating company such as Public Service Company of Colorado or Southwest Public Service Company.<sup>367</sup> In those cases, Xcel proposes to allocate those costs based on each utility operating company’s size (using total plant ratio) relative to the entire company.<sup>368</sup> For the 2025 and 2026 test years, Xcel asserts that it will incur \$16.5 million and \$19.8 million respectively that cannot be directly allocated to a particular operating company.<sup>369</sup> Using Xcel’s preferred total plant ratio methodology, Minnesota electric customers are responsible for \$3.3 million in 2025 and \$4.3 million in 2026.<sup>370</sup> This methodology, however, is flawed. It assumes that Minnesota’s wildfire risk equals the risks in Xcel’s other jurisdictions and therefore fails to observe cost causation principles.

Xcel’s preferred methodology wrongly assumes that its jurisdictions have equivalent wildfire risks. But wildfire risk in Xcel’s Colorado and Texas jurisdictions is 2.4 to 7.6 times higher

---

<sup>366</sup> Ex. DOC-24 at 13 (Jones Surrebuttal).

<sup>367</sup> Ex. DOC-1 at 42 (Johnson Direct).

<sup>368</sup> *Id.* at 43–44.

<sup>369</sup> *Id.* at 44.

<sup>370</sup> *Id.*

than in Minnesota.<sup>371</sup> To better reflect cost causation principles, indirect wildfire costs should be allocated using the same allocations that it used for costs that could be directly allocated to a service company. For example, if Xcel’s Minnesota operating company is responsible for only 10% of XES’s direct wildfire costs, then it would only be allocated 10% of the indirect wildfire costs. Applying this methodology reduces Xcel’s revenue requirement by \$1.7 million in 2025 and \$1.8 million in 2026, as shown below:

	2025	2026
Total Indirect Wildfire Costs	\$16.5 million	\$19.8 million
NSPM’s Allocation of Direct Wildfire Costs	9.7%	12%
Department’s Proposed NSPM Allocation of Indirect Wildfire Costs	\$1.6 million	\$2.4 million
Xcel’s Proposed Allocation	\$3.3 million	\$4.3 million
Revenue Requirement Difference	\$1.7 million	\$1.8 million

**K. Transmission O&M Expenses Should Reflect the Consistent Year-Over-Year Decline in Xcel’s Expenses.**

Although Transmission O&M expenses consistently declined year-over-year from 2022 through 2024, Xcel requested an increase from its 2024 expenses for the 2025 test year, and a further increase for the 2026 plan year.<sup>372</sup> The Department reviewed Xcel’s proffered explanation for the forecast and determined that it was out-of-step with Xcel’s own historical expense, trends in expenses, and inconsistent with Xcel’s explanation for its past over-recovery in this category.<sup>373</sup> The Department’s recommendation to continue using the company’s actual 2024 Transmission O&M expense is conservative given the consistent downward trend in this expense, and is borne

---

<sup>371</sup> Ex. DOC-9 at 14 (Borden Direct).

<sup>372</sup> Ex. DOC-5 at 6 (Golden Direct).

<sup>373</sup> See Ex. DOC-5 at 6–8 (Golden Direct); Ex. DOC-6 at 9–13 (Golden Surrebuttal).

PUBLIC DOCUMENT – NOT  
PUBLIC DATA HAS BEEN EXCISED

out by the actual Transmission O&M expenses for the first three quarters of 2025, which have trended below the level of actual 2024 expenses.<sup>374</sup>

Xcel’s proposal calls for a \$1.5 million increase for the 2025 test year and a \$2 million increase for the 2026 plan year above the company’s 2024 expenses, even though the company over-estimated its expenses in this category every year from 2022 through 2024, collecting \$11.4 million more from ratepayers than it spent on Transmission O&M expenses.<sup>375</sup> Despite its awareness that its prior forecast did not accurately predict its expenses, Xcel “relied on the same budgeting process” to generate its 2025 and 2026 Transmission O&M budget.<sup>376</sup> Not only did this budgeting process inaccurately forecast expenses from 2022 to 2024, it erroneously predicted that expenses would increase each year, when they in fact decreased every year.<sup>377</sup> There is no reasoned basis to believe that using the same budgeting process would be any more accurate in this rate case than it was before.

When pressed to explain the difference between the company’s forecasted and actual expenses for 2023 and 2024, Xcel stated that the difference was “largely due” to internal reorganizations and cost saving measures.<sup>378</sup> Even if this explanation fully accounted for the difference, the expenses set in this case should reflect the ongoing nature of these expense reductions.<sup>379</sup> Xcel’s explanation, however, does not explain any of the variance between the test year and actual expenses in 2022, and \$3.5 million of variance across 2023 and 2024.<sup>380</sup> Moreover,

---

<sup>374</sup> Ex. DOC-6 at 13 (Golden Surrebuttal).

<sup>375</sup> Ex. DOC-5 at 6 (Golden Direct).

<sup>376</sup> Ex. Xcel-43 at 3 (Berklund Rebuttal).

<sup>377</sup> Ex. DOC-5 at 6 (Golden Direct).

<sup>378</sup> Ex. DOC-5 at 7, ARG-D-2 (Golden Direct).

<sup>379</sup> Ex. DOC-5 at 7 (Golden Direct).

<sup>380</sup> *Id.*

the increase in budgeted expenses is largely driven by increases in estimated internal labor expenses, while those expenses have been consistently decreasing.<sup>381</sup>

Rather than acknowledge these disparities, Xcel misleadingly cites to a “2024 forecast” that is significantly lower than the 2024 test year expense Xcel submitted in the prior rate case to argue that its forecasting is accurate.<sup>382</sup> Xcel further attempts to obscure the unreasonableness of its requested expenses by noting that the 2025 test year and 2026 plan year expenses are lower than the “most recent four-year average” of actual expenses without explaining why it would be reasonable to base future expenses on an average when expenses have been decreasing every year.<sup>383</sup> Even so, the 2021 actual expenses adds yet another data point reinforcing the Department’s position: Xcel predicted an increase in expenses the following year, but experienced a decrease.<sup>384</sup> The Department’s position is bolstered by the 2025 expenses for the first three quarters of the year, which annualize to an estimated 2025 Transmission O&M expense of \$17.07 million—less than the \$17.4 million recommended by the Department, and substantially less than the \$18.9 million requested by Xcel.<sup>385</sup>

**L. Xcel Should Be Required to Provide Support for Incremental Internal Labor Costs in the Coal Combustion Residuals Expenses Tracker.**

The Department and Xcel agree that the Commission should approve a tracker to allow the company to recover compliance costs associated with the legacy coal combustion residuals (CCR)

---

<sup>381</sup> Ex. DOC-5 at 8 (Golden Direct).

<sup>382</sup> Ex. Xcel-43 at 6 (Berklund Rebuttal). *Compare* Ex. Xcel-43 at 4 (Berklund Rebuttal) (showing a 2024 Forecast O&M Expense of \$17.3 million), *with* Ex. DOC-5 at 6 (Golden Direct) (showing a 2024 Test Year O&M Expense of \$23.9 million).

<sup>383</sup> Ex. Xcel-43 at 3–4 (Berklund Rebuttal).

<sup>384</sup> *Compare* Ex. Xcel-43 at 4 (Berklund Rebuttal) (showing \$22.0 million in 2021 Actual O&M Expense), *with* Ex. DOC-5 at 6 (Golden Direct) (showing a 2022 Test Year O& M Expense of \$23.1 million, and an actual 2022 O&M Expense of \$21.0 million).

<sup>385</sup> Ex. DOC-6 at 12 (Golden Surrebuttal).

rule.<sup>386</sup> Xcel also agreed with the Department’s proposal that Xcel be required to provide adequate support for costs in the tracker in the Company’s annual compliance filings.<sup>387</sup> It did not, however, agree with the Department’s recommendation that Xcel not be allowed to include any internal labor costs in the tracker because those expenses are not incremental costs.<sup>388</sup> The company noted that the new CCR rules required investigation of certain sites that had not required remediation, and depending on the results of those investigations, may need to take responsive action that would result in incremental costs.<sup>389</sup>

Based on this additional information, the Department revised its position, and recommends that Xcel be required to support and justify any incremental labor costs in the CCR tracker.<sup>390</sup> This approach balances an opportunity for the utility to recover incremental expenses legitimately incurred in complying with the new CCR rules with protections to prevent ratepayers from being charged a second time for expenses already included in rates.

**M. Xcel’s Rates Should Reflect a Representative Level of Liquidated Damage Payments.**

Xcel contracts with third parties to maintain and operate its wind generation facilities.<sup>391</sup> Some of these agreements require the contractors to pay Xcel liquidated damages when these facilities experience more downtime than contemplated.<sup>392</sup> Xcel routinely receives payments under these agreements. Between 2022 and 2025, Xcel received between \$700,000 and \$4.8 million.<sup>393</sup> Some, but not all of these revenues are returned to customers through the company’s Renewable

---

<sup>386</sup> Ex. DOC-6 at 7 (Golden Surrebuttal).

<sup>387</sup> Ex. DOC-5 at 26 (Golden Direct); Ex. Xcel-60 at 3 (West Rebuttal).

<sup>388</sup> *Id.*

<sup>389</sup> Ex. Xcel-60 at 4 (West Rebuttal).

<sup>390</sup> Ex. DOC-6 at 8 (Golden Surrebuttal).

<sup>391</sup> Ex. Xcel-45 at 60 (Capra Direct).

<sup>392</sup> *Id.*

<sup>393</sup> Ex. DOC-2 at 18 (Johnson Surrebuttal).

Energy Standard (RES) rider.<sup>394</sup> Consistent with the test-year concept, the Commission should require Xcel to include a representative amount of liquidated damages revenue in rates, excluding those revenues that were credited to customers through the RES rider.

State law requires that rates be based on a representative “12-month” test year.<sup>395</sup> The purpose of test-year concept is to provide a “snapshot” of the utility’s likely costs and revenues.<sup>396</sup> Here, Xcel has received liquidated damage payments every year since 2022.<sup>397</sup> Nor does the Company deny that it is likely to receive them in the future.<sup>398</sup> As a result, it would be inconsistent with the test-year concept to categorically exclude liquidated damages entirely. Instead, the Commission should include about \$945,000 in liquidated damages revenue in both test years.<sup>399</sup> As shown in the table below, this amount reflects the average damage payment revenue, excluding revenue already returned through the RES rider.<sup>400</sup>

<b>Year</b>	<b>Amount</b>
Total Payments 2022-2025	\$10,800,026
Amounts Returned via RES Rider	\$7,017,249
Remaining Revenue 2022-2025	\$3,782,777
2022-2024 Average	\$945,694

**N. Ratepayers Should Not Bear the Entire Expense of Xcel’s Board of Directors.**

Xcel is seeking to recover over \$2.5 million in compensation for XEI’s board of directors over the multi-year rate plan.<sup>401</sup> The Department acknowledges that some of this compensation is

---

<sup>394</sup> *Id.* at 15; Ex. Xcel-46 at 10-11 (Capra Rebuttal).

<sup>395</sup> Minn. R. 7825.3100, subp. 17 (2023).

<sup>396</sup> *In re Minn. Power’s Appl. for Auth. to Change Elec. Serv. Rates in Minn.*, Docket No. E-015/GR-94-001, 1994 WL 777132, at \*30 (Nov. 22, 1994).

<sup>397</sup> Ex. DOC-2 at 16 (Johnson Surrebuttal).

<sup>398</sup> Ex. Xcel-46 at 13 (Capra Rebuttal).

<sup>399</sup> Ex. DOC-2 at 18 (Johnson Surrebuttal).

<sup>400</sup> *Id.*

<sup>401</sup> Ex. DOC-3 at MBK-D-30 at 6 (Kehrwald Direct) (Xcel’s Response to DOC IR 2114, Department’s annotated Attachment A).

reasonable, but also that the board of directors serves significant shareholder interests and therefore recommends that Xcel’s recovery be capped at 50%.<sup>402</sup>

In arguing for full recovery, Xcel merely asserts that having a board is necessary and benefits Xcel generally.<sup>403</sup> Xcel mischaracterizes the Department’s position by claiming that the Department suggests the board of directors is not a “necessary and required operating expense.”<sup>404</sup> The Department has never asked the Commission to completely disallow board-related expenses. Rather, it asks the Commission to limit recovery because the board of directors works for both customer and shareholder interests.<sup>405</sup> Xcel conveniently ignores that its own proxy statement states that director compensation is designed to align director and shareholder interests.<sup>406</sup>

The Department’s 50% cap on board of director compensation recovery would reduce Xcel’s revenue requirement by about \$609,000 in 2025 and \$661,00 in 2026.

**O. The Commission Should Require Xcel to Use the Most Up-to-Date Interchange Agreement Allocator.**

Although Xcel has separate operating companies for Minnesota and Wisconsin, the two companies share generation and transmission assets.<sup>407</sup> To assign costs to the two jurisdictions, Xcel relies on cost and revenue allocators memorialized in an interchange agreement subject to annual review and approval by the Federal Energy Regulatory Commission (“FERC”).<sup>408</sup> In May 2025, FERC approved Xcel’s proposed interchange agreement for 2025.<sup>409</sup> Although this is the most up-to-date allocator agreement, Xcel opposes using it for purposes of setting 2025 and 2026

---

<sup>402</sup> Ex. DOC-3 at 55 (Kehrwald Direct).

<sup>403</sup> Ex. Xcel-63 at 40–41 (Ly Rebuttal).

<sup>404</sup> *Id.* at 39.

<sup>405</sup> Ex. DOC-3 at 53–55 (Kehrwald Direct).

<sup>406</sup> Ex. DOC-4 at 66 (Kehrwald Surrebuttal).

<sup>407</sup> Ex. DOC-1 at 30 (Johnson Direct).

<sup>408</sup> *Id.*

<sup>409</sup> Ex. DOC-1, MAJ-D-4 at 1 (Johnson Direct)

PUBLIC DOCUMENT – NOT  
PUBLIC DATA HAS BEEN EXCISED

rates to the detriment of Minnesota customers. The Commission should continue applying the commonsense principle that a newer up-to-date allocator is better than an older, less up-to-date allocator.<sup>410</sup>

To avoid using 2025 interchange agreement allocator, Xcel claims that using it would amount to selectively changing one component of the Interchange Agreement billings between Xcel's Minnesota and Wisconsin operating companies.<sup>411</sup> The company also asserts that using the 2025 allocator agreement for 2026 is inappropriate because the 2025 allocator is not representative of the 2026 test year cost of service.<sup>412</sup> Neither argument holds up to scrutiny. Xcel's claim that using the 2025 interchange agreement allocator amounts to a selective change implies that other components of the Interchange Agreement billings also require change. But Xcel failed to identify additional changes despite being invited by the Department to do so.<sup>413</sup> Xcel's other argument that the 2025 allocator is not representative of 2026 ignores that Xcel's currently proposes to rely on even older allocators dating to 2023.<sup>414</sup> Xcel's position that allocators dating to 2023 provide a more reliable estimate for 2026 than 2025 data makes little sense. The Commission should reject it.

Adopting the Department's recommendation to use the 2025 interchange agreement allocator increases Xcel's revenue requirement by about \$272,000 in 2025 and decreases it by about \$2.9 million in 2026.<sup>415</sup>

---

<sup>410</sup> 2021 Rate Case Order at 109 (adopting the Department's recommendation to use updated allocators "based on the most contemporary evidence in the record.").

<sup>411</sup> Ex. Xcel-19 at 61 (Halama Rebuttal).

<sup>412</sup> *Id.*

<sup>413</sup> Ex. DOC-2 at 6 (Johnson Surrebuttal).

<sup>414</sup> Ex. Xcel-18, BCH-D-17 at 2 (Halama Supplemental Direct).

<sup>415</sup> Ex. DOC-2 at 7 (Johnson Surrebuttal).

**III. THE DEPARTMENT’S CCOSS RANGE, REVENUE APPORTIONMENT, AND RATE DESIGN APPROPRIATELY BALANCE COMPETING RATE DESIGN PRINCIPLES AND RESULT IN AN EQUITABLE RATE STRUCTURE.**

The purpose of rate design is to allocate Xcel’s revenue requirement among its customers. Through this process, the Commission must balance competing goals found in state law to develop just and reasonable rates.<sup>416</sup> Considering these goals, the Commission should (1) accept the Department’s Class Cost of Service Study (“CCOSS”) range as methodologically sound to inform its rate design decisions; (2) approve the Xcel’s updated proposed 2025 test year revenue apportionment to remain in effect until the company’s next rate case; (3) deny Xcel’s proposal to increase the residential and C&I non-demand classes’ fixed customer charge recommendations; (4) accept Xcel’s sales true-up proposal; (5) approve Xcel’s proposed changes to the dedicated switching fee, excess footage and winter construction charge, street lighting tariff, and the fuel clause rider; (6) adopt the Department’s recommendations relating to the customer care and the residential arrears management programs.

**A. The Commission Should Rely on the Department’s CCOSS Recommendation as a Reasonable Starting Position for Rate Design.**

In accordance with Commission historical preference for using multiple class cost of service studies (“CCOSS”), the Commission should consider the results of two CCOSS different studies in this proceeding. The results of Xcel’s “hybrid” method CCOSS and its “basic customer” method CCOSS. The Commission, however, should only consider the results of these studies after modifications are made to the way demand-related transmission costs are allocated. Additionally, the Commission should reject a proposal to switch from the plant stratification method to the AED-4 method for classifying and allocating production costs. It should also require Xcel to conduct a

---

<sup>416</sup> See generally Minn. Stat. ch. 216B.

PUBLIC DOCUMENT – NOT  
PUBLIC DATA HAS BEEN EXCISED

study comparing the costs of the advanced metering infrastructure and the traditional metering infrastructure.

A CCOSS is used to identify the responsibility of each customer class for each cost incurred by utility in providing service.<sup>417</sup> The CCOSS is a starting point to then determine how costs are recovered by the utility as a part of rate design, including which costs should be fixed or vary with amount or timing of energy use.<sup>418</sup> There are three steps to performing a CCOSS: (1) grouping the costs according to major function; (2) classifying costs as customer, demand, or energy; and (3) allocating costs to various customer classes based on several factors.<sup>419</sup>

One of the most contentious aspects of performing a CCOSS is the classification of distribution facilities. To classify this plant, Xcel employed several different methodologies, including the minimum-size method, the zero-intercept method, and the basic customer method:

- The minimum-size method classifies distribution lines as customer costs or demand costs and considers the minimum size for each piece of equipment currently installed by the utility to serve the minimum demand requirements of customers.<sup>420</sup> The merits of the minimum size method include that it is a widely accepted, easy to perform, and based on actual data from the utility system.<sup>421</sup>
- The zero-intercept method produces the same general result as the minimum size method, but it relies on regression analysis to do so. Under this method, distribution facility costs are again classified customer or demand-related.<sup>422</sup> The merits to the zero-intercept method are that it is widely accepted and should produce accurate results because the regression should indicate exact costs of distribution equipment that is necessary for service without providing power.<sup>423</sup>

---

<sup>417</sup> Ex. DOC-16 at 3 (Zajicek Direct).

<sup>418</sup> *Id.* at 3–4.

<sup>419</sup> *Id.* at 6.

<sup>420</sup> *Id.* at 25.

<sup>421</sup> *Id.* at 26.

<sup>422</sup> *Id.* at 27.

<sup>423</sup> *Id.* at 28.

- The basic customer method classifies distribution that serves a single customer as customer-related cost and all other joint distribution equipment as demand related; this method is easy to implement and not easily manipulated by parties.<sup>424</sup>

Xcel combined the results of its minimum-size and zero-intercept methods in a hybrid that relies on the lowest customer cost for each type of distribution equipment.<sup>425</sup> In this case, the zero-intercept method uniformly produced the lowest customer costs and, therefore, the results of Xcel's hybrid study are identical to those of its zero-intercept study.<sup>426</sup>

Other common areas of dispute are the allocation of peak demand-related transmission costs among customers and classification of certain capital costs. In conducting its studies, Xcel used a D10S allocator to allocate peak demand costs based on the contribution of each customer class to the peak demand of Xcel's system.<sup>427</sup> To classify capital costs, Xcel used the plant stratification method to classify capital costs in excess of those incurred in constructing a combustion turbine peaking facility to be substitutes for fuel costs – thereby classifying these costs as energy related.<sup>428</sup> In contrast, another party proposed that the Commission switch to the AED-4 method which classifies these capital costs as energy or demand related based on load factor.<sup>429</sup>

**1. The Commission Should Rely on Results Produced Using Xcel's Hybrid and Basic Customer Methodologies Updated to Use a Corrected D10S Allocator**

Here, the Commission should rely on the results produced by Xcel's hybrid and basic customer method studies, but it should require Xcel to update its results to allocate demand-related transmission costs using the D10S allocator.<sup>430</sup> Combining the results of the basic customer and

---

<sup>424</sup> *Id.* at 28–29.

<sup>425</sup> Ex. Xcel-73, CJB-D-8 at 7 (Barthol Direct).

<sup>426</sup> *Id.*

<sup>427</sup> Ex. DOC-18 at 10 (Zajicek Surrebuttal).

<sup>428</sup> *Id.* at 2.

<sup>429</sup> *Id.*

<sup>430</sup> Ex. DOC-16 at 42 (Zajicek Direct).

hybrid method studies creates an end result that is stronger than either study alone. This combination of CCOSS studies is preferable as it includes CCOSS methodology that exhibits a strong theoretical foundation and common-sense judgment.

Pertaining to the classification and allocation of production costs, the Commission should continue to use the plant stratification method.<sup>431</sup> Xcel Large Industrial’s proposal to use the AED-4 method fails to distinguish between different generation resources, does not consider the on- and off-peak natures of generators, and the Commission has supported Xcel’s use of the plant stratification method for decades.<sup>432</sup> Moreover, the plant stratification method should be adopted over the AED-4 method because the intermittent quality of wind and solar resources do not change their use as largely baseload resources and they do not incur fuel costs.<sup>433</sup> The plant stratification method is less likely to overstate the contribution of intermittent resources peak demand.<sup>434</sup> While one party argues that the Commission should move to the AED-4 method for classifying and allocating productions, none of the relative strengths of the stratification method, which led the Commission to adopt it decades ago, have dissipated. The Commission should continue to use the plant stratification method consistent with its past decisions.<sup>435</sup>

**2. The Commission Should Require Xcel to Study the Appropriate Classification of AMI Meter Costs**

Regarding advanced metering infrastructure, the Commission should require Xcel to provide a study comparing AMI and traditional meter costs in its next rate case – including the costs of reading both AMI and traditional meters.<sup>436</sup> While traditional meters were appropriately

---

<sup>431</sup> Ex. DOC-18 at 4 (Zajicek Surrebuttal).

<sup>432</sup> Ex. OAG-9 at 10 (Scharber Rebuttal); Ex. Xcel-74 at 14–15 (Barthol Rebuttal).

<sup>433</sup> Ex. DOC-18 at 4 (Zajicek Surrebuttal).

<sup>434</sup> *Id.* at 2.

<sup>435</sup> *Id.*

<sup>436</sup> *Id.* at 5.

classified as customer-related, it is undisputed that AMI meters have both incremental costs and benefits that are unrelated to serving customers. As a result, it would be reasonable for some portion of AMI costs exceeding traditional meter costs to be classified as either demand or energy related depending on other uses for the AMI infrastructure.<sup>437</sup>

**3. The Commission Should Rely on the Department CCOSS Recommendations as a Basis for Rate Design**

Lastly, the recommended apportionment percentages for each year based on the Department’s CCOSS ranges are provided below for both 2025 and 2026.<sup>438</sup> These ranges can be readily implemented into a new CCOSS range that accounts for a change to the revenue requirement – and as such, provide great utility to the Commission’s rate design decision-making.

**Department’s 2025 Recommended CCOSS Apportionment Range<sup>439</sup>**

<b>Customer Class</b>	<b>Basic Customer CCOSS Apportionment</b>	<b>Hybrid/Minimum System CCOSS Apportionment</b>
Residential	39.40%	41.23%
Non-Demand	2.92%	3.05%
Demand	56.68%	54.73%
Street Lighting	0.99%	0.99%
Total	100.00%	100.00%

**Department’s 2026 Recommended CCOSS Apportionment Range<sup>440</sup>**

<b>Customer Class</b>	<b>Basic Customer CCOSS Apportionment</b>	<b>Hybrid/Minimum System CCOSS Apportionment</b>
Residential	40.02%	41.99%
Non-Demand	2.80%	2.95%
Demand	56.18%	54.07%
Street Lighting	1.00%	1.00%
Total	100.00%	100.00%

<sup>437</sup> *Id.* at 5-6 (Zajicek Surrebuttal).

<sup>438</sup> Ex. DOC-18 at 13–14 (Zajicek Surrebuttal).

<sup>439</sup> Ex. DOC-218 at 15 (Zajicek Surrebuttal).

<sup>440</sup> *Id.* at 16.

**B. The Commission Should Adopt the Department’s Revenue Responsibility Apportionment and Rate Design Recommendations.**

Xcel proposes to annually apportion approximately \$3.7 to \$4.0 billion in test-year revenues to its customers between 2025 and 2026.<sup>441</sup> In apportioning revenue responsibility and designing rates, the Commission must balance competing principles and policies.<sup>442</sup> Rates should offer utilities a reasonable opportunity to earn their revenue requirements.<sup>443</sup> Rates should promote efficiency and conservation.<sup>444</sup> They should promote renewable energy use.<sup>445</sup> And, they should avoid “rate shock” and unreasonable discrimination against any customer class.<sup>446</sup> In balancing these priorities, the Commission must resolve any doubts in favor of consumers.

In this case, the Commission should moderate Xcel’s proposal to annually move customers 20% closer to cost based on combined class cost of service studies. Instead, the Commission should only move customers 20% closer to cost once in the 2025 test year and use that same fixed revenue apportionment until Xcel’s next rate case. In addition, the Commission should deny Xcel’s proposed customer charge increase for residential and commercial and industrial (“C&I”) customers, approve Xcel’s sales true-up proposal, consider adding requirements for the customer care issue, and approve Xcel’s Residential Arrears Management Program (“RAMP”) program subject to the Department’s modifications.

**1. The Commission should adopt the Department’s recommended revenue apportionment.**

Revenue apportionment assigns the utility’s approved revenue requirement to customer classes. When a utility company files a rate case and proposes a material change in the rate

---

<sup>441</sup> Ex. Xcel-19, BCH-R-2 at 4 (Halama Rebuttal).

<sup>442</sup> Ex. DOC-19 at 3–5 (Bahn Direct).

<sup>443</sup> Minn. Stat. § 216B.16, subd. 6.

<sup>444</sup> Minn. Stat. §§ 216B.03–.04.

<sup>445</sup> Minn. Stat. § 216C.05, subd. 1 (2024).

<sup>446</sup> Minn. Stat. §§ 216B.03, .07.

PUBLIC DOCUMENT – NOT  
PUBLIC DATA HAS BEEN EXCISED

structure, a CCOSS is required.<sup>447</sup> When designing rates, the Commission generally considers a number of CCOSS studies that are reasonably conducted and thereby uses that foundation as the basis for apportioning revenues among classes and setting final rates.<sup>448</sup> The Department considered various rate design principles, including those developed by Dr. James Bonbright and those relied on by the Department in prior cases, in developing its revenue apportionment recommendation in this case. These principles include:

- rates should be designed to allow the Company a reasonable opportunity to recover its revenue requirement, including the cost of capital;
- rates should promote efficient resource use
- rate changes should be gradual to limit consumer rate shock; and
- rates should be understandable and easy to administer.

Applying these principles, the Commission should adopt Xcel's updated 2025 test year revenue apportionment proposal with the condition it remains in effect until Xcel's next rate case.<sup>449</sup> Xcel's proposal to base revenue apportionment on a 20% movement toward cost of providing service to each class relying on its hybrid CCOSS results is generally reasonable for 2025.<sup>450</sup> Xcel supports separate revenue apportionments for the 2025 test year and the 2026 plan year.<sup>451</sup> Xcel claims a material difference exists between the test year and the plan year—an expected increase in the sales for the C&I demand class.<sup>452</sup> But Xcel's updated proposed revenue increase and apportionment to the different customer classes based on adjustments made to the sales forecast does not reflect the anticipated increase in the C&I demand class for the 2026 plan

---

<sup>447</sup> Ex. DOC-19 at 6 (Bahn Direct).

<sup>448</sup> *Id.*

<sup>449</sup> Ex. DOC-20 at 11 (Bahn Surrebuttal).

<sup>450</sup> *Id.* at 5.

<sup>451</sup> *Id.* at 6.

<sup>452</sup> Ex. Xcel-77 at 6 (Paluck Rebuttal).

PUBLIC DOCUMENT – NOT  
PUBLIC DATA HAS BEEN EXCISED

year.<sup>453</sup> In the 2015 MYRP order, the Commission pointed out the difficulty in relying on anticipated circumstances to establish revenue apportionments.<sup>454</sup> In both the 2015 and 2021 MYRP orders, the Commission adopted fixed apportionments (based on respective test years) to remain in effect until the Company's next rate case.<sup>455</sup> The Department, consistent with the reasoning found in MYRP orders, recommends a fixed apportionment based on the updated 2025 test year in this proceeding.<sup>456</sup> This is the most prudent course of action that reflects the sensibility of relying on test year data that uses actual sales versus the Company's anticipated sales for the plan year while also supporting gradual movement of rates toward actual, class-specific cost of service.

	2025	2026
Residential	40.13%	40.47%
Non-Demand	3.29%	3.39%
Demand	55.67%	55.23%
Street Lighting	0.90%	0.90%
Total	100.00%	100.00%

Xcel's updated revenue apportionment proposal is provided above.<sup>457</sup> The Commission, in line with previous MYRP Commission orders, should approve Xcel's updated proposed 2025 test year revenue apportionment, remaining in effect until the Company's next rate case.

**2. Xcel's monthly customer charge proposed increase for residential and C&I customer classes should not be approved as it constitutes rate shock.**

Xcel's proposal to increase the fixed monthly charge for residential and C&I non-demand customers from \$6.00 to \$11.00 per month should not be approved. Xcel's residential and C&I

---

<sup>453</sup> Ex. DOC-20 at 7 (Bahn Surrebuttal).

<sup>454</sup> 2015 Rate Case Order at 56.

<sup>455</sup> *Id.*; 2021 Rate Case Order at 114.

<sup>456</sup> Ex. DOC-19 at 30 (Bahn Direct); Ex. DOC-20 at 11 (Bahn Surrebuttal).

<sup>457</sup> Ex. DOC-20 at 11 (Bahn Surrebuttal).

PUBLIC DOCUMENT – NOT  
PUBLIC DATA HAS BEEN EXCISED

non-demand customer classes pay a rate that is composed of both a fixed monthly charge and a per-kWh volumetric (energy) charge.<sup>458</sup> Once the revenue apportionment is fixed for the customer class, the monthly charge and per-kWh volumetric charge work inversely with each other.<sup>459</sup> Consistent with cost-causation principles, only those costs incurred by Xcel to serve a single customer such as metering should be included in the fixed charge.

Customer-specific costs are costs that are attributed to a single customer while customer-related costs are costs shared among customers within a customer class such as overhead and underground distribution lines.<sup>460</sup> When costs are shared among customers, it is equitable that such costs are recovered based on customer-specific usage and therefore recovered through the energy charge.<sup>461</sup> While customer-related costs are useful in informing revenue apportionment decision making between customer classes, it is only appropriate to recover customer-specific costs through the fixed monthly customer charge to avoid rate shock.<sup>462</sup>

The Company disagreed with the idea that service drops should only be identified as customer specific if the drop is in connection with a single-family home or business compared with multi-family or business dwellings, for example, apartment buildings and shopping malls. The Company did not provide an answer when asked how many service drops serve more than one residential customer.<sup>463</sup> Despite this, the Company's witness, Mr. Paluck, acknowledged that "historically, some customer-related costs are included in the energy charge."<sup>464</sup> Additionally, Xcel did not include customer-related costs for service drops in the basic customer CCOSS in its

---

<sup>458</sup> Ex. DOC-19 at 30–31 (Bahn Direct).

<sup>459</sup> *Id.* at 31.

<sup>460</sup> *Id.*

<sup>461</sup> *Id.*

<sup>462</sup> *Id.*

<sup>463</sup> Ex. DOC-20, APB-S-1 at 1 (Bahn Surrebuttall).

<sup>464</sup> Ex. Xcel-76 at 15 (Paluck Direct).

previous MYRP but has added service drops to the basic customer CCOSS in the current proceeding.<sup>465</sup>

Moreover, the Commission is empowered to set rates that encourage “to the maximum reasonable extent . . . energy conservation and renewable energy use.”<sup>466</sup> A higher customer charge corresponds with a lower energy charge – creating a price signal that encourages customers to use more energy. This was highlighted by the Commission in its previous order as well as noting that “customer charges tend to confuse customers by impairing customer understanding of their energy bill.”<sup>467</sup> An 83.33% increase in customer charge for these two customer classes is neither supported by the record nor historical decision-making by the Commission and thus should be denied.

**3. The Commission should approve Xcel’s sales true-up proposal in this proceeding.**

Xcel proposes a sales true-up rider mechanism that operates similarly to a revenue decoupling mechanism. Revenue decoupling is an important regulatory tool that “reduce[s] a utility’s disincentive to promote energy efficiency.”<sup>468</sup> Decoupling accomplishes this by adjusting ratepayers’ bills via a sales or revenue true-up to recover differences between the actual revenue and the level of revenue approved for the utility in its rate case proceeding – the utility is not penalized by customer conservation.<sup>469</sup> This method allows for a smart rate design in the interest of complementary policy goals identified by the legislature. The Commission approved the use of a sales true-up mechanism in the Company’s last two rate cases.<sup>470</sup> Xcel confirmed that the current sales true-up proposal is identical to the sales true-up that was approved by the Commission in the

---

<sup>465</sup> Ex. DOC-19 at 40 (Bahn Direct).

<sup>466</sup> Minn. Stat. § 216B.03.

<sup>467</sup> 2021 Rate Case Order at 116–17.

<sup>468</sup> Minn. Stat. § 216B.2412, subd. 1 (2024).

<sup>469</sup> Ex. DOC-19 at 11 (Bahn Direct).

<sup>470</sup> 2015 Rate Case Order at 68; 2021 Rate Case Order at 116–17.

PUBLIC DOCUMENT – NOT  
PUBLIC DATA HAS BEEN EXCISED

last rate case.<sup>471</sup> The Department recommends the Commission approve Xcel’s sales true-up proposal in this proceeding.

**4. The Commission should require Xcel to provide greater detail about its billing errors, customer complaints, and customer satisfaction in monthly reports in a new or existing docket.**

The Department has interest in the customer care management within the Company – as such Mr. Bahn requested data on residential and C&I customer complaints from the past five years as well as customer satisfaction survey results.<sup>472</sup> From the received information, the Department notes that there appears to be a decline in customer transaction satisfaction survey results over the 2016-2025 time period for residential customers.<sup>473</sup> As reflected in the table below, residential and commercial customer complaints increased after 2020.<sup>474</sup>

**Table 6: Xcel Customer Complaints<sup>18</sup>**

Year	Residential	Commercial	Industrial	Government	Total
2015	119	10	0	0	129
2016	92	10	0	0	102
2017	108	5	0	0	113
2018	236	11	1	0	248
2019	376	20	0	0	396
2020	218	19	1	1	239
2021	445	37	2	0	484
2022	602	31	1	1	635
2023	733	25	1	0	759
2024	1,436	31	1	0	1,468
2025*	612	24	2	0	638

*\*Information for 2025 is year-to-date up to July 15, 2025.*

The Company has stated it is addressing customer satisfaction in Docket No. E, G-002/CI-25-341. The Department recommends the Commission open a new docket to address customer

<sup>471</sup> Ex. Xcel-77 at 19 (Paluck Rebuttal).

<sup>472</sup> Ex. DOC-19 at 57–58 (Bahn Direct).

<sup>473</sup> Ex. DOC-20 at 17–18 (Bahn Surrebuttal).

<sup>474</sup> *Id.* at 18.

care issues or have the Company include additional information on the scope and nature of C&I billing errors and complaints in monthly reports in the aforementioned docket.

**5. The Commission should approve Xcel's Residential Arrears Management Program proposal with modifications.**

Xcel proposes several measures to improve affordability for its customers, including the Residential Arrears Management Program (“RAMP”). This program is designed to help residential customers pay past due amounts and, in doing so, reduce the possibility for service disconnection. Xcel's RAMP proposal relies on funding from residential late payment fees and eligibility would be based on certain criteria and income.<sup>475</sup> Xcel states this program is designed with customers that may not be eligible for Energy Assistance Program (“EAP”) in mind as well as a Commission order requiring a similar affordability program as offered in the Colorado service territory.<sup>476</sup> While the Commission should approve the program, it should do so only having making several modifications that would strengthen the utility of the program while providing better safeguards.<sup>477</sup> In addition to making these modifications, the Commission should take into account that the RAMP program, if approved, likely will not begin operations until the third quarter of 2026. As result, the Commission does not need to provide funding for 2025 and should only provide partial funding for 2026. Prorating funding this way, increases late fee revenues included in Xcel's other revenues account by \$6.1 million for 2025 and \$2.9 million for 2026 and reduces the company's revenue requirement deficiency by a corresponding amount.<sup>478</sup>

---

<sup>475</sup> Ex. DOC-19 at 62 (Bahn Direct).

<sup>476</sup> *Id.* at 63.

<sup>477</sup> Ex. DOC-20 at 28 (Bahn Surrebuttal).

<sup>478</sup> Ex. DOC-19 at 70 (Bahn Direct).

**CONCLUSION**

Xcel failed to prove that it needs a half billion in new rate increases to provide safe and reliable service to customers. Nor does the company need it to maintain its financial integrity or adequately compensate investors. On the contrary, Xcel is thriving under its current rate structure which itself is the product of more than a decade of constant rate increases. Given the balance of ratepayer and investor interests, the Commission should, at a minimum, adopt the Department's recommendations limiting Xcel's rate increase to no more than 5.5% over two years. This would effectively cut Xcel's proposal by about \$267 million. The Commission also should adjust Xcel's rate design consistent with the Department's testimony. These changes are essential to ensure rates remain just and reasonable.

Dated: January 28, 2026

Respectfully submitted,

KEITH ELLISON  
State of Minnesota  
Attorney General

/s/ **Richard Dornfeld**

RICHARD DORNFELD, No. 0401204  
KATHERINE ARNOLD, No. 0395767  
STEPHEN D. MELCHIONNE, No. 0391374  
AMRIT HUNDAL, No. 0505855  
Assistant Attorneys General

445 Minnesota Street, Suite 600  
St. Paul, MN 55101-2131  
(651) 757-1327 (Voice)  
(651) 297-1235 (Fax)  
richard.dornfeld@ag.state.mn.us

ATTORNEYS FOR MINNESOTA  
DEPARTMENT OF COMMERCE