Direct Testimony and Schedules
Charles R. Henckler

Before the North Dakota Public Service Commission
State of North Dakota

In the Matter of the Application of Northern States Power Company
for Authority to Increase Rates for Natural Gas Service in North Dakota

Case No. PU-26___
Exhibit___(CRH-1)

Overall Revenue Requirements
Rate Base
Income Statement

January 30, 2026

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SCHEDULES

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND TITLE.

A. My name is Charles R. Henckler. I am a Principal Rate Analyst for Xcel Energy Services Inc. (XES or the Service Company), the service company for Xcel Energy, Inc., and its operating company subsidiaries.

Q. PLEASE SUMMARIZE YOUR QUALIFICATIONS AND EXPERIENCE.

A. I have over five years of experience at XES, supporting Northern States Power Company – Minnesota (NSPM or the Company) in the areas of regulatory accounting, financial operations, and revenue requirements. In my current role, I am responsible for the development of jurisdictional revenue requirements for all NSPM jurisdictions. My statement of qualifications is attached as Exhibit___(CRH-1), Schedule 1.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. I support the Company's financial data and our requests for a general base rate increase and interim rate increase for the State of North Dakota retail gas jurisdiction, specifically:

- the overall retail revenue requirement of $129.154 million and base rate revenue deficiency of $13.761 million, determined by the cost of service for the 2026 test year; and
- the interim increase of $12.301 million as discussed in our Alternative Petition for Interim Rates.

I relied on and incorporated information provided by other witnesses in this proceeding to develop many of the test year revenue requirement adjustments discussed in my testimony. My testimony includes several schedules with financial information related to the 2026 test year revenue requirements and deficiency.

Q. HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?

A. The remainder of my testimony is organized into the following sections:

- Section II Case Overview
- Section III Supporting Information
- Section IV Rate Base Components
- Section V Income Statement
- Section VI Utility and Jurisdictional Allocations
- Section VII Annual Adjustments to the Test Year
- Section VIII Compliance Matters
- Section IX Conclusion

II. CASE OVERVIEW

A. Test Year Revenue Requirements and Deficiency

Q. WHAT IS THE AMOUNT OF THE TEST YEAR REVENUE REQUIREMENT FOR THE COMPANY'S GAS OPERATIONS IN ITS NORTH DAKOTA JURISDICTION?

A. The 2026 test year jurisdictional retail revenue requirement for North Dakota gas utility operations is $129.154 million based on forecasted average rate base and projected net operating income for the calendar year 2026 test year, based on a 7.90 percent overall Rate of Return (ROR) recommended by Company witness Joshua C. Nowak of Concentric Energy Advisors, Inc. in Direct Testimony.

Q. WHAT IS THE AMOUNT OF THE REVENUE DEFICIENCY FOR THE TEST YEAR?

A. The base rate revenue deficiency for the test year is $13.761 million. A summary of the base rate revenue deficiency for 2026 is shown in Exhibit___(CRH-1), Schedule 2. The level of North Dakota retail gas rates must be increased by this amount in 2026 for the Company to have an opportunity to earn an overall return on rate base of 7.90 percent as shown in Exhibit___(CRH-1), Schedule 3, 2026 test year Cost of Service Study.

Q. HOW DID YOU CALCULATE THE DEFICIENCY?

A. The 2026 revenue requirements for this filing are calculated by including all revenues and costs at the proposed capital structure, as well as any federal and state credits earned on a total company basis, then allocating those components to North Dakota based on the allocation methods discussed in Section VI.

Q. DID THE COMPANY PREPARE A COST OF SERVICE STUDY THAT SUPPORTS THE REVENUE REQUIREMENT AMOUNT AND REVENUE DEFICIENCY FOR THE TEST YEAR?

A. Yes. A cost of service study was prepared. Schedule 3 contains a copy of the jurisdictional cost of service study (JCOSS) for the test year.

Q. WHAT IS THE BASIS FOR THE COMPANY'S CAPITAL STRUCTURE AND WHAT ARE THE VARIOUS COMPONENTS?

A. The capital structure employed in this case represents the Company's 2026 budgeted amounts. The costs and ratios associated with this capital structure are found in Schedule 3, and are as follows:

	Rate	Ratio	Weighted Cost
Long Term Debt	4.64%	47.08%	2.18%
Short Term Debt	4.56%	0.42%	0.02%
Common Equity	10.85%	52.50%	5.70%
Weighted Cost			7.90%

Company witness Nowak discusses the Company's capital structure in further detail in his direct testimony.

B. Case Drivers

Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR TESTIMONY?

A. I discuss the drivers of this rate case when compared to existing rates. I first discuss capital related cost drivers, then amortizations driving the test year revenue requirement, then tax related cost drivers, then operation and maintenance (O&M) related cost drivers and conclude with other margin related drivers.

Q. HAVE YOU PREPARED A COMPARISON OF THE COSTS IN THE TEST YEAR FORECAST TO CURRENT RATES RESULTING FROM THE 2024 TEST YEAR?

A. Yes. Consistent with the analysis provided in prior rate cases, I provide an explanation of the detailed case drivers of the deficiency using a comparison of the 2026 test year with the base rates in effect as a result of Case No. PU-23-367, which used a test year based on the 2024 budget. I will refer to the comparison year as the 2024 test year. My analysis is done by Federal Energy Regulatory Commission (FERC) accounts and functional groupings and differs from the direct testimony of the Company's witnesses, who primarily discuss costs and cost changes in terms of actual costs and budgets (not revenue deficiencies). Therefore, my discussion of key cost drivers reflects dollar values that group costs differently from their discussions. I also use the 2024 test year as a comparison point rather than 2024 actual results. I note that I discuss these drivers at a high level for purposes of discussing the overall deficiency and rely on information provided by various business areas around the activities and changes giving rise to these drivers.

Q. ARE THE FUNCTIONAL CLASS CATEGORIES OF OPERATING EXPENSE COMPARABLE BETWEEN THE 2026 TEST YEAR FORECAST AND THOSE CONTAINED IN 2024 RATE CASE TEST YEAR?

A. Yes. Both categorizations conform to the FERC Uniform System of Accounts.

Q. WHAT ARE THE MAJOR DRIVERS OF THE COMPANY'S NEED FOR RATE RELIEF?

A. A summary of the cost elements to which the revenue deficiency can be attributed is provided in Exhibit___(CRH-1), Schedule 4, Detailed Case Drivers. The major cost elements driving the revenue deficiency are identified in Table 1 below.

Table 1
Net Deficiency ($ in millions)

	Increase (Decrease) 2026 TY to 2024 TY
Capital Related	$9.5
Taxes	2.8
Operating Expense	1.6
Amortizations	0.3
Other Margin Impacts (sales and customer growth)	(0.3)
Total Net Incremental Deficiency	$13.8

Q. Since the last gas rate case, have any other factors impacted the Company's gas business?

A. Yes. There are several notable factors that have impacted our gas business since the Company's last gas rate case – primarily, inflation and supply chain disruptions. Specifically, unprecedented inflation has affected the cost of our capital investments and operations, from the cost of materials and supplies to the cost of transportation to the costs of external labor. The Company makes every effort to manage these economic conditions as they apply to our business and customers, but these issues continue to drive our costs up since the Company developed its future test year forecast for the last case in 2023.

Q. Please provide a specific example of inflationary pressures identified since the Company's last gas rate case.

A. As discussed in Company witness Daniel J. Connoy's testimony, inflationary pressures impacted transportation costs and common materials such as 2-inch polyethylene.

1. Capital Related Cost Drivers

Q. Please describe the revenue requirement impact for the principal changes in capital related costs.

A. Table 2 below compares the 2026 test year revenue requirements with the revenue requirements for the 2024 test year, by category, for capital plant related costs as shown on Schedule 4.

Table 2
Capital Related Revenue Requirements Changes
($ in millions)

	Increase (Decrease) 2026 TY to 2024 TY
Distribution	$4.8
Gas Production and Storage	1.9
ROE Change	1.2
General	0.8
Transmission	0.4
Other Rate Base	0.2
Intangible	0.1
TOTAL Capital Related	$9.5

Q. PLEASE IDENTIFY THE PRINCIPAL CHANGES IN DISTRIBUTION CAPITAL COSTS.

A. The 2026 test year revenue requirements include a $4.8 million increase due to the distribution business unit's capital investments in North Dakota compared to the 2024 test year. This increase is due to capital investments relating to new customer business, safety and reliability work, and mandatory relocations. Additional information regarding distribution's capital investments is provided in the direct testimony of Company witness Connoy.

Q. PLEASE IDENTIFY THE PRINCIPAL CHANGES IN GAS PRODUCTION AND STORAGE CAPITAL COSTS.

A. The 2026 test year revenue requirements include a $1.9 million increase due to our investments in capital projects for our Gas Peaking facilities compared to the 2024 test year. Company witness Connoy discusses these investments further in his direct testimony.

Q. PLEASE DESCRIBE THE PRINCIPAL CHANGES IN RETURN ON EQUITY (ROE).

A. The test year forecast revenue requirements include a $1.2 million increase related to the proposed change in the ROE, compared to the ROE approved in the Company's last gas rate case. The total change is due to a requested 10.85 percent ROE. However, the Company's interim rate request reflects the 9.90 percent ROE. Company witness Nowak discusses the ROE.

Q. PLEASE IDENTIFY THE PRINCIPAL CHANGES IN GENERAL AND INTANGIBLE CAPITAL COSTS.

A. The 2026 test year revenue requirements include a $0.9 million increase due to our investments in capital projects classified as general and intangible compared to the 2024 test year. This increase is due to capital investments relating to our service centers, investments in information technology (IT), and fleet capital additions. Company witnesses Allen D. Krug and Michele A. Kietzman discuss these investments further in direct testimony.

2. Taxes

Q. PLEASE DESCRIBE THE PRINCIPAL CHANGES IN TAXES.

A. The test year revenue requirements include an increase in current and deferred income tax of $2.2 million largely due to the increase in rate base and total revenue requirement. A larger rate base means the Company earns higher revenues, which in turn results in higher taxes.

3. Operating and Maintenance Expenses (O&M)

Q. PLEASE DESCRIBE THE PRINCIPAL CHANGES IN OPERATING AND MAINTENANCE EXPENSES.

A. Table 3 below compares the 2026 test year revenue requirements with the revenue requirements for the 2024 test year, by category, for operating expenses as shown on Schedule 4.

Table 3
O&M Expense Changes ($ in millions)

	Increase (Decrease) 2026 TY to 2024 TY
Distribution Systems	1.5
Admin & General	1.1
Customer Accounting / Info / Service	0.4
Gas Production and Storage	(1.3)
Transmission	(0.1)
TOTAL O&M	$1.6

Q. WHAT ARE THE REASONS FOR THE INCREASE IN DISTRIBUTION SYSTEMS OPERATING EXPENSE?

A. The 2026 test year revenue requirements include a $1.5 million increase in distribution operating expenses compared to the 2024 test year. This increase is due to an increase in the cost of our damage prevention vendor and other labor, and increases in materials costs, primarily due to inflation. Additional information regarding 2026 test year distribution O&M relative to the 2024 actual year is discussed in the direct testimony of Company witness Connoy.

Q. WHAT ARE THE REASONS FOR THE INCREASE IN ADMINISTRATIVE AND GENERAL (A&G) EXPENSE?

A. The 2026 test year revenue requirements include a $1.1 million increase in A&G expense compared to the 2024 test year. This increase is due to increases in

Company labor costs (salaries and benefits) and increases in insurance costs as well as a reduction in the 2024 test year expenses as agreed upon in the PU-23-367 Settlement.

Q. WHAT ARE THE REASONS FOR THE DECREASE IN GAS PRODUCTION AND STORAGE EXPENSE?

A. The 2026 test year revenue requirements include a $1.1 million decrease in Gas Production and Storage compared to the 2024 test year. This decrease is due to the amortization of the manufactured gas plant (MGP) deferral ending in 2025. In the Tax Cuts and Jobs Act (TCJA) settlement in Case No. PU-18-156 it was agreed that the costs of the MGP amortization would be recovered in the COG Rider and neither the expense nor the revenue associated with the recovery would be included in the Company's test year. Because this adjustment impacted both expenses and revenue, this decrease is offset by the change in Other Revenue shown below in Table 4.

Q. DID YOU INCLUDE COMPARISONS OF THE CHANGE IN PURCHASED GAS EXPENSE AS PART OF THE O&M EXPENSE ANALYSIS?

A. No. Although the cost of fuel is considered an operating expense, recovery occurs through the Company's separate gas adjustment mechanism and true-up process.

4. Other Margin

Q. PLEASE DESCRIBE THE REVENUE REQUIREMENT IMPACT FOR THE PRINCIPAL CHANGES IN OTHER MARGIN.

A. Table 4 below compares the 2026 test year revenue requirements with the revenue requirements for the 2024 test year, by category, for other margin as shown on Schedule 4.[1]

Table 4
Net Deficiency ($ in millions)

		Increase (Decrease) 2026 TY to 2024 TY
Sales Change		($1.6)
Other		1.3
TOTAL Other Margin Impacts		($0.3)

Q. PLEASE DESCRIBE HOW CHANGES IN REVENUE IMPACT THE COMPANY'S REVENUE REQUIREMENTS.

A. Over the past five years, the Company's total number of natural gas customers in North Dakota has increased by 11 percent. Company witness John M. Goodenough supports the Company's customer growth, sales data, and sales forecast in direct testimony. Customer and sales growth over the past five years is approximately 2.0 percent and that trend is expected to continue for 2025 and 2026 which results in the increased revenue shown on Table 4 above.

III. SUPPORTING INFORMATION

Q. WHAT TOPICS DO YOU DISCUSS IN THIS SECTION OF YOUR TESTIMONY?

[1] Due to rounding, the totals in Table 4 do not sum to the total of the Sales Change and Other figures in Sch. 4.

A. In this section I provide information related to data provided in our application, the selection of the test year, and the jurisdictional cost of service study.

A. Data Provided and Selection of Test Year

Q. PLEASE DEFINE THE FISCAL PERIODS FOR WHICH FINANCIAL DATA IS PROVIDED IN THIS PROCEEDING.

A. Financial data is provided for the most recent fiscal year (calendar year 2024), the current year (calendar year 2025 – forecasted from July 1, 2025), and the test year (calendar year 2026). Financial data for the most recent fiscal year, the current year, and the test year are adjusted for traditional regulatory adjustments (*e.g.*, advertising expenses, association dues, etc.).

Q. WHY DID THE COMPANY PROPOSE CALENDAR YEAR 2026 FOR THE TEST YEAR FOR THIS PROCEEDING?

A. Calendar year 2026 was selected as the test year because it uses the most recent available budget information and is a reasonable representation of the costs and expenses the Company will incur when interim and final rates take effect.

Q. DOES THE 2026 FUTURE TEST YEAR MEET THE COMMISSION'S REQUIREMENTS?

A. Yes. The use of a future test year is permitted by North Dakota Century Code (N.D.C.C.) § 49-05-04.1(1), which allows a utility to select a future test year. N.D.C.C. § 49-05-04.1(2) then requires the Company to present:

a) a comparison of forecast data to historical period data to demonstrate the reliability and accuracy of the utility's forecast, including a comparison of the prior years' forecast or budgeted data to actual data for those periods;

b) a statement that the test year budget data is reasonable, reliable, and made in good faith; and all basic assumptions used in making or supporting the forecast are reasonable, evaluated, identified, and justified to allow the Commission to test the appropriateness of the forecast; and

c) the accounting treatment applied to anticipated events and transactions in the budget is the same as the accounting treatment to be applied in recording the events once they have occurred.

Exhibit___(CRH-1), Schedule 9, Budgeting Accuracy, to my direct testimony provides a comparison of past budgets to actual costs from 2022-2024 in compliance with the first requirement of this statute. The 2026 Company budget data, after the adjustments I discuss below, is a reasonable and conservative representation of the costs and expenses the Company will incur to provide gas service in the State of North Dakota and complies with N.D.C.C. § 49-05-04.1(2). Thus, the 2026 test-year data is reasonable, reliable, and made in good faith, and is appropriate for setting rates in this proceeding. In addition, the accounting treatment applied to anticipated events and transactions in the budget is the same as the accounting treatment applied in recording the events once they have occurred.

Q. N.D.C.C. § 49-05-04.1(2)(c) REQUIRES A UTILITY TO FILE CERTAIN FINANCIAL DATA FOR COMPARISON WITH THE TEST YEAR DATA. IS THE COMPANY COMPLYING WITH THIS REQUIREMENT?

A. Yes. Volume 3 Section II includes the Company's 2024 actual JCOSS study. This information, providing the most recent calendar year of actual data, is consistent with the approach we took in our last two gas rate cases (Case No. PU-23-367 and Case No. PU-21-381), and with the financial statements in our May 1, 2025 jurisdictional annual report filed with the Commission in Case No.

PU-25-175. Volume 3 Section II provides the same information for the 2025 current year as required by the N.D.C.C.

B. Jurisdictional Cost of Service Study

Q. PLEASE DESCRIBE THE COMPONENTS OF THE JCOSS FOR THE 2026 TEST YEAR.

A. The complete JCOSS for 2026 is provided in Schedule 3, 2026 Test Year COSS, and includes all the adjustments discussed in my direct testimony. The JCOSS includes the following financial data input sections for both total Company and the North Dakota Jurisdiction: (i) capital structure; (ii) cost of capital; (iii) income tax rates; (iv) rate base; (v) income statement; (vi) income tax calculations; and (vii) cash working capital computation.

Q. PLEASE DESCRIBE THE JURISDICTIONAL COST OF SERVICE SCHEDULE.

A. The JCOSS summary for the 2026 test year is included in Schedule 3:

- The "Rate Base Summary" for total Company gas operations and the North Dakota jurisdiction is shown on Schedule 3, page 1.
- An "Income Statement Summary" for total Company gas operations and the North Dakota jurisdiction is shown on Schedule 3, page 2.
- The "Income Tax Summary" for total Company gas operations and the North Dakota jurisdiction is shown on Schedule 3, page 3. The schedule shows adjustments to book income necessary to determine state and federal taxable income. The federal and state income tax calculations are carried back to the income statement on Schedule 3, page 2.
- The "Revenue Requirement Summary" for total Company gas operations and the North Dakota jurisdiction is shown on Schedule 3, page 3. Specifically, the schedule shows: (i) the earned overall rate of return on rate base; (ii) the earned return on equity (ROE); (iii) the base rate

revenue deficiency that needs to be recovered to enable North Dakota jurisdiction gas operations to earn the requested ROE; and (iv) the total revenue requirements.

- The computation of cash working capital is shown in Volume 3 Section III Workpaper P10, and is carried back to the rate base on Schedule 3, page 1.

Q. ARE THE REVENUE CONVERSION FACTOR CALCULATION AND THE NORTH DAKOTA COMPOSITE INCOME TAX RATES INCLUDED IN THIS FILING?

A. Yes. The revenue conversion factor is the incremental amount of gross revenue required to generate an additional dollar of operating income. See Table 5 below for the revenue conversion factor calculation.

Table 5
Revenue Conversion Factor Calculation

Gross Revenue Factor =	1 / (1 - Federal and ND Income Tax)
	1 / (1 - 0.24405)
	1.32284

Q. WHAT FEDERAL CORPORATE TAX RATE WAS USED TO CALCULATE THE REVENUE CONVERSION FACTOR?

A. Pursuant to the TCJA of 2017, the Company has used a federal corporate tax rate of 21 percent in the calculation of the revenue conversion factor. The revenue conversion factor and composite income tax rates are included in Schedule 3, page 1.

Q. PLEASE EXPLAIN HOW THE INTEREST DEDUCTION FOR DETERMINING TAXABLE INCOME IS CALCULATED.

A. The interest deduction applicable to the income tax calculation is the result of a calculation commonly referred to as "interest synchronization." The amount of interest deducted for income tax purposes is the weighted cost of debt capital multiplied by the average rate base.

Q. DESCRIBE THE SCHEDULE IN YOUR EXHIBITS THAT IS RELATED TO THE INCOME STATEMENT.

A. Exhibit___(CRH-1), Schedule 5, consists of comparative income statements for the test year. Schedule 5, page 1 is a comparative income statement for the 2026 test year, showing the income effect of present authorized rates and proposed rates. This comparative income statement was prepared from the results of the JCOSS and includes the revenue deficiency in the North Dakota jurisdiction gas utility operations. Schedule 5, page 2 shows a gas utility comparative income statement for the North Dakota jurisdiction for the 2026 test year, before and after making test period adjustments.

IV. RATE BASE COMPONENTS

Q. PLEASE EXPLAIN WHAT RATE BASE REPRESENTS.

A. Rate base primarily reflects the capital investment made by a utility in plant, equipment, materials, supplies, and other assets necessary for the provision of utility service, reduced by accumulated depreciation and non-investor sources of capital, such as deferred taxes.

Q. PLEASE IDENTIFY THE MAJOR COMPONENTS OF THE PROJECTED TEST YEAR RATE BASE.

A. The test year rate base is generally composed of the following major items, which will be described in further detail later in my testimony:

- Net Utility Plant;
- Short-term Construction Work in Progress (CWIP);
- Accumulated Deferred Income Taxes (ADIT); and
- Other Rate Base Items.

Q. PLEASE DESCRIBE THE SCHEDULES IN YOUR TESTIMONY THAT ARE RELATED TO THE TEST YEAR AVERAGE INVESTMENT IN RATE BASE.

A. Exhibit___(CRH-1), Schedule 6, page 1 of 3, shows a detailed statement of the Average Rate Base by component for the 2026 test year. Schedule 6, page 2 of 3, is a comparative statement of the 2026 test year average rate base for the North Dakota jurisdiction and total Company, before and after making proposed test period adjustments. Schedule 6, page 3 of 3 provides detailed information on CWIP and ADIT for the total Company and North Dakota jurisdiction. Volume 3 Section II Schedule 2024 Historical Year COSS, page 1 shows the Company's actual 2024 average rate base as provided in the May 1, 2025 jurisdictional annual report to the Commission. The annual jurisdictional report rate base provided in Volume 3 Section II Schedule 2024 Historical Year COSS has been modified to include the proposed ROE, cash working capital, and an adjustment to include the cost of gas. These modifications were made consistent with past practice to align with the 2026 test year cost of service.

A. Net Utility Plant

Q. WHAT DOES NET UTILITY PLANT REPRESENT?

A. Net utility plant represents the Company's investment in plant and equipment that is used and useful in providing retail gas service to its customers, net of accumulated depreciation and amortization.

Q. PLEASE EXPLAIN THE METHOD USED TO CALCULATE NET UTILITY PLANT INVESTMENT IN THIS CASE.

A. The net utility plant is included in rate base at depreciated original cost reflecting the simple average of projected net plant balances at the beginning and end of the test year. Such treatment is consistent with the method employed in our most recent North Dakota gas rate case.

Q. WHAT HISTORICAL BASE DID THE COMPANY RELY ON AS A STARTING POINT TO DEVELOP THE PROJECTED NET PLANT BALANCES FOR THE BEGINNING OF THE TEST YEAR?

A. The historical base used was the Company's actual net investment (Plant-In-Service less Accumulated Depreciation) on the books and records of the Company as of June 30, 2025. The budget projections for July through December 2025 were then applied to the June 30, 2025 balance to arrive at a beginning test year net plant balance.

Q. ON WHAT BASIS WERE NET PLANT BALANCES PROJECTED FOR THE END OF THE TEST YEAR?

A. The ending net plant balances were determined by applying the data contained in the 2026 capital budget to the above-described beginning test year balances, adjusted for plant additions, retirements, depreciation, salvage, and removal costs projected to occur during the test year. The net plant balance in rate base reflects the simple average of projected net plant balances at the beginning and end of the 2026 test year. Such treatment is consistent with the method employed in the Company's most recent gas rate case.

Q. WHAT WAS THE AVERAGE NET UTILITY PLANT INCLUDED IN THE TEST YEAR RATE BASE?

A. The average net utility plant included in the test year rate base is $260.064 million, provided in Schedule 3, page 1. As shown on this schedule, the average net utility plant is comprised of an average plant balance of $371.111 million minus an average depreciation reserve of $111.047 million.

B. Construction Work in Progress (CWIP)

Q. HAS CWIP BEEN INCLUDED IN THE TEST YEAR RATE BASE?

A. Yes. However, the only CWIP that is included in rate base are costs related to projects of a short duration (any capital project that is deemed routine and finishes work within a month) that do not accrue Allowance for Funds Used During Construction (AFUDC). I note the identification of short-term CWIP ensures that no long-term CWIP is recovered in base rates. Thus, there is no AFUDC offset added to operating income. The rate base amount reflects a simple average of projected short-term CWIP beginning and ending test year balances. This is consistent with the method employed in our last North Dakota gas rate case and matches the use of an average rate base.

Q. HOW WERE THE TEST YEAR BEGINNING AND ENDING CWIP BALANCES DETERMINED?

A. The beginning test year balance for CWIP was the June 30, 2025 actual balance. Construction expenditures, and transfers to Plant-In-Service during the remaining months of 2025 were netted against the June 30, 2025 balance to derive a beginning test year balance. The beginning test year CWIP balance was adjusted to reflect projected construction expenditures, and transfers to Plant-In-Service during the 2026 test year to obtain the ending test year CWIP balance. These projections were developed from the Company's 2026 capital budget.

Q. WHAT WAS THE LEVEL OF SHORT-TERM CWIP INCLUDED IN THE TEST YEAR RATE BASE?

A. As shown in Schedule 3, page 1, the average short-term CWIP included in rate base was $1.402 million.

C. Accumulated Deferred Income Taxes (ADIT)

Q. PLEASE DESCRIBE ACCUMULATED DEFERRED INCOME TAXES.

A. Inter-period differences exist between the book and taxable income treatment of certain accounting transactions. These differences typically originate in one period and reverse in one or more subsequent periods. For utilities, the largest such timing difference typically is the extent to which accelerated income tax depreciation exceeds book depreciation during the early years of an asset's service life. ADIT represents the cumulative net deferred tax amounts that have been allowed and recovered in rates in previous periods.

Q. WHY IS ADIT DEDUCTED IN ARRIVING AT TOTAL RATE BASE?

A. To the extent income taxes recovered in rates are deferred for later payment, they represent a prepayment by customers, a non-investor source of funds. The average projected ADIT balance is deducted in arriving at total rate base to recognize such funds are available for corporate use between the time they are collected in rates and ultimately remitted to the respective taxing authorities.

Q. WHAT AMOUNT OF ADIT WAS DEDUCTED IN THE PROJECTED TEST YEAR RATE BASE?

A. As shown on Schedule 3, page 1, $29.680 million was deducted. This amount reflects a simple average of the projected beginning and ending 2026 test year ADIT balances and incorporates Internal Revenue Service (IRS) tax regulations. Specifically, Sec. 1.167(l) of the tax code defines a pro-rated schedule for the extent average accumulated deferred income taxes can be used to reduce rate base to comply with the tax normalization requirements of the Code when forecast information is used to set rates.

Q. HAS THE COMPANY COMPLIED WITH THE COMMISSION'S ADIT AMORTIZATION REQUIREMENTS?

A. Yes. The Commission's adoption of the Settlement in Case No. PU-18-156 requires the Company to amortize its excess plant-related ADIT using the Average Rate Assumption Method (ARAM). Consistent with this requirement, the Company is amortizing the excess plant related ADIT using ARAM.

D. Other Rate Base

Q. PLEASE SUMMARIZE THE ITEMS YOU HAVE INCLUDED IN OTHER RATE BASE.

A. Other rate base is comprised primarily of what is referred to as working capital. It also includes certain unamortized balances that are the result of specific ratemaking amortizations as discussed later in my testimony.

Q. PLEASE EXPLAIN WHAT WORKING CAPITAL REPRESENTS.

A. Working capital is the average investment in excess of net utility plant provided by investors that is required to provide day-to-day utility service. It includes items such as materials and supplies, fuel inventory, prepayments, and various non-plant assets and liabilities. The net cash requirements, also referred to as cash working capital, is a separate line item on various schedules.

Q. HOW HAVE TEST YEAR MATERIALS AND SUPPLIES AND FUEL INVENTORY REQUIREMENTS BEEN CALCULATED?

A. The materials and supplies and fuel inventory amounts shown on Schedule 3, page 1, are based on the thirteen-month average balances projected during the test year. Materials and supplies average balance included in the test year rate base equals $0.325 million. The test year average rate base amount for fuel inventory is $1.916 million.

Q. HOW HAVE THE TEST YEAR NON-PLANT ASSETS AND LIABILITIES BEEN DETERMINED?

A. These balances as shown on Schedule 3, page 1, represent the 2026 calendar year estimate of these balances. Any book/tax timing differences associated with these items have been reflected in the determination of current and deferred income tax provision and ADIT balances previously discussed. This group is primarily composed of assets that increase test year rate base by $1.612 million.

Q. HOW HAVE THE TEST YEAR PREPAYMENTS AND OTHER WORKING CAPITAL ITEMS BEEN DETERMINED?

A. Prepayments and other working capital, such as customer advances and deposits, are based on the actual thirteen-month average balances during the period ended June 30, 2025, as a proxy for the test year. The unamortized balances included in this section are based on the amortization schedules as described later in my testimony. The net impact of these various items decreases the test year rate base by $1.237 million as shown on Schedule 3, page 1.

Q. How have test year regulatory amortizations been calculated?

A. The rate base amount reflects a simple average of beginning and ending test year balances.

Q. How have the test year cash working capital requirements been determined?

A. Cash working capital requirements have been determined by applying the results of a comprehensive lead/lag study to the projected test year revenues and expenses.

Q. Have the components of the test year cash working capital been calculated consistent with methods used in the most recent North Dakota gas rate case?

A. Yes.

Q. Please briefly explain how a lead/lag study measures cash working capital.

A. A lead/lag study is a detailed analysis of the time periods involved in the utility's receipt and disbursement of funds. The study measures the difference in days between the date services to a customer are rendered and the revenues for that service are received, and the date the costs of rendering the services are incurred until the related disbursements are actually made.

Q. HAS THE COMPANY'S LEAD/LAG STUDY BEEN UPDATED SINCE ITS LAST NORTH DAKOTA GAS RATE CASE?

A. Yes. The Company has updated the study for the calculation of expense lead days and revenue lag days for the twelve months ending December 31, 2024. The methodology for calculating the lead/lag days is consistent with the methodology used in the Company's prior electric and gas regulatory filings. The results of the updated lead/lag study for gas operations were incorporated into the North Dakota jurisdiction cash working capital rate base component as shown on Schedule 3, page 1.

Q. WHAT IS THE TEST YEAR CASH WORKING CAPITAL AMOUNT?

A. The amount included in the average rate base is a negative $0.152 million. The detailed components and calculations associated with this amount are summarized in Volume 3 Section III Workpaper P10.

Q. WHAT IS INDICATED BY THE NEGATIVE CASH WORKING CAPITAL AMOUNT?

A. Negative cash working capital indicates overall revenue collections occur sooner than the date when the associated costs of service are paid. In the Company's circumstance, retail revenue collections comprise the largest source of cash working capital, being offset by operating expenses, fuel expense, and property taxes. The negative cash working capital decreases rate base to compensate customers for funds provided to meet cash working capital requirements.

Q. IS THE 2026 TEST YEAR RATE BASE FOR THE COMPANY'S NORTH DAKOTA JURISDICTION GAS OPERATIONS REASONABLE FOR PURPOSES OF DETERMINING FINAL RATES IN THIS PROCEEDING?

A. Yes. The test year rate base was developed on sound ratemaking principles in a manner similar to prior Company North Dakota gas rate cases.

V. INCOME STATEMENT

A. Revenues

Q. WAS THE IMPACT OF WEATHER ON PROJECTED SALES AND CUSTOMER GROWTH FOR THE TEST YEAR RECOGNIZED IN THE TEST YEAR REVENUE REQUIREMENT?

A. Yes. Test year retail sales levels assume normal weather. Customer counts are forecasted as described by Company witness Goodenough.

Q. DO RETAIL OPERATING REVENUES REFLECT THE PROJECTED LEVEL OF UNBILLED SALES VOLUMES IN THE TEST YEAR FORECAST?

A. Yes. As Company witness Goodenough explains, the projected level of unbilled sales is incorporated into the retail sales forecast on a calendar month basis. This eliminates the need to reconcile billing-month sales to calendar-month sales by recording unbilled revenues.

Q. HAVE YOU CONSIDERED OTHER OPERATING REVENUES AS AN OFFSET TO THE RETAIL REVENUE REQUIREMENT?

A. Yes. The test year includes items such as revenues from specific tariff charges including service activation fees, late payment fees, and others. In areas where the Company did not budget for the collection of these other operating revenues, a representative level was determined and included in revenues in the cost of service study.

B. Operating and Maintenance Expenses

Q. WHAT O&M COSTS IS THE COMPANY BUDGETING FOR IN THE TEST YEAR?

A. The test year cost of service represents all the Company's forecasted O&M expenses directly assigned or allocated to the North Dakota gas utility; the bulk of these costs are the O&M expenses incurred by our gas operations function. The direct testimony of Company witness Connoy presents the budgeted O&M costs for gas operations. As he notes, the Company was able to keep O&M expenses relatively stable between 2022 and 2025, but vendor, labor, and increased transportation costs drive an expected increase in costs in 2026. The allocation of these costs to the gas utility and then to the North Dakota jurisdiction is addressed in Section VI of my direct testimony.

C. Depreciation Expense

Q. WHAT DEPRECIATION EXPENSE IS USED IN THIS PROCEEDING?

A. In direct testimony, Company witness Kietzman presents the test year depreciation expense. As she notes, the Company is proposing a reduction for the North Dakota jurisdiction, which is discussed in Section VII of my testimony.

D. Taxes

Q. WHAT TAX EXPENSES ARE INCLUDED IN THE 2026 TEST YEAR INCOME STATEMENT?

A. We have line items for property tax; income taxes including deferred income tax; investment tax credits and federal and state income tax; and payroll tax. The state and federal income taxes are calculated in Schedule 3, page 3.

Q. HOW ARE INCOME TAXES DETERMINED FOR THE JURISDICTION?

A. Income taxes are determined based on total before tax book income, tax additions, and deductions which determine deferred income taxes and the resulting taxable income that is used to calculate federal and state income taxes. The federal income tax rate reflects the 21 percent rate effective January 1, 2018 with the enactment of the TCJA. The utilization or generation of net operating losses or tax credits impact both deferred income taxes and federal and state income taxes, which I will discuss in more detail below.

Q. DOES THE COST OF SERVICE REFLECT ANY POTENTIAL FEDERAL OR STATE CORPORATE TAX RATE CHANGES DURING THE TEST YEAR?

A. Not at this time. While it is possible that there will be state or federal legislation during the course of a rate case to change tax rates, no changes are known at this time.

Q. WHAT IMPACT WOULD A FEDERAL TAX RATE CHANGE HAVE ON THE COST OF SERVICE?

A. The specific impacts to the cost of service would depend on the actual legislation that is enacted, if any. However, at a high level, an increase in the corporate income tax rate is expected to increase current and deferred income tax expense and ADIT leading to a net increase in the cost of service. Similarly, a decrease in the corporate income tax rate is expected to decrease current and deferred income tax expense and ADIT leading to a net decrease in the cost of service, consistent with the TCJA impacts on the cost of service. If, or when, federal and/or state tax rates may change, the Company would likely need to work with the Commission to seek relief or otherwise address the changes similarly to how the TCJA was addressed in 2018.

Q. PLEASE SUMMARIZE THE RATEMAKING TREATMENT OF NET OPERATING LOSSES (NOLS).

A. A NOL is created when taxable deductions exceed taxable revenue; when this occurs, the excess deductions are carried forward to future periods. NOLs require an adjustment that offsets the part of the ADIT rate base reduction that is associated with the accelerated depreciation deductions. That adjustment is needed to keep the Company's rate base consistent with the income tax deductions that the Company has been able to use. Keeping a balance of rate base reductions resulting from the ADIT and the use of accelerated depreciation is required under federal income tax law as part of "normalization" for both accounting and ratemaking.

Q. PLEASE EXPLAIN HOW THE COMPANY DETERMINES WHETHER DEFERRED TAX ASSETS (DTAS) ARE CREATED OR CONSUMED.

A. The calculation of income taxes determines whether DTAs are created or consumed. Simply put, if tax deductions exceed taxable income, any excess deductions are deferred, as well as all tax credits earned during the year. These deferred deductions and tax credits create a DTA that is "carried forward" to future years. If taxable income exceeds all current year tax deductions, any deductions carried forward from prior years may be utilized to reduce taxable income. Any remaining taxable income can be reduced further by any available tax credits. Prior year deductions or credits utilized or consumed reduce the DTA.

The federal income tax code and tax regulations dealing with NOLs state that unused deductions carried forward to a future tax year must be utilized before credits and unused deductions can reduce taxable income up to 80 percent and unused credits can reduce any remaining tax expense by 75 percent.

For the purpose of determining the NOL, these income tax calculations are done on an all-inclusive jurisdictional cost of service basis in which rider revenues are included with non-rider revenues and investments. This approach determines the extent to which the Company's Gas Utility North Dakota retail jurisdiction is in a tax loss position or in a position to utilize deductions and credits carried forward from previous periods. This approach ensures that any reduction in revenue requirements resulting from the utilization of deductions or credits carried forward from prior periods is returned to customers as soon as it is available in the form of a reduction to base rates.

These balances, related to unused credits and deductions, are reported in the Company's May 1 Jurisdictional Annual Reports, including the most recent May 1, 2025 Jurisdictional Annual Report. By having these annual determinations made on an all-in basis, the JCOSS includes actual data for both rider recovery and base rate recovery. Any change in rider recovery by the Commission will be incorporated in this process.

Q. DO THE DTAS AFFECT THE 2026 TEST YEAR REVENUE REQUIREMENTS?

A. Yes. The Company's 2026 test year COSS includes a revenue requirement increase associated with NOL and tax credits carried forward from prior periods to the 2026 test year and the impact of the 2026 test year generation or utilization of the NOL and federal and state tax credits to be carried forward based on the Company's 2026 test year COSS. An accounting for the balances carried forward to the 2026 test year COSS, as well as the documented calculations supporting this revenue requirement increase, can be found in Volume 3 Section VIII Workpaper A19.

It should be noted that any change in the revenues, expenses, or capital structure will cause the income tax calculation to be changed. This could, in turn, affect the timing of the DTAs being generated or consumed and added to, or removed, from rate base.

Q. HOW WILL THE RATES SET IN THIS CASE AFFECT THE UTILIZATION OF DTAS IN FUTURE TEST YEARS?

A. The utilization of DTAs is based on taxable income for the Company's North Dakota Gas Retail jurisdiction. Taxable income is determined by total revenues less total deductions and total tax credits. Once base rates are set in this case for the 2026 test year, they will remain in place until changed in another gas rate case. If all other factors are held constant, an increase in base rate revenue as proposed by the Company in this case will increase the utilization of deferred tax assets in future years.

E. AFUDC

Q. WHAT IS AFUDC?

A. As previously noted, AFUDC is the cost of financing during the period a capital investment is constructed. Once an asset is placed in service, the total cost to construct, including accumulated AFUDC, is recovered through depreciation expense.

VI. UTILITY AND JURISDICTIONAL ALLOCATIONS

Q. PLEASE DESCRIBE THE METHODS USED TO ALLOCATE COSTS TO THE COMPANY'S GAS UTILITY OPERATIONS.

A. The 2026 test year includes both costs incurred directly by the Company's gas operating business and costs assigned or allocated by the Service Company for corporate functions (*e.g.,* accounting, human resources, law, etc.). The Service Company cost allocation and billing process is subject to FERC jurisdiction and authorization under a Utility Services Agreement between the Service Company and the Company.

Cost allocation and assignment principles have not changed since our last North Dakota gas rate case. O&M cost assignments and allocations are also consistent with the Company's recent North Dakota gas rate case filed on December 29, 2023 (Case No. PU-23-367). Non-O&M costs include such items as book depreciation expense, deferred income taxes, and property taxes. All of the investments common to the electric and natural gas utilities, and their related costs (*e.g.*, software or other common investments and expenses), are evaluated as to whether the cost should be direct assigned to electric or natural gas; or allocated based on appropriate allocators such as: Customers, Customer Bills, Transportation Studies, or the three factor general allocator (the average of Revenue Ratio, Employee Ratio, and Asset Ratio).

Additional information regarding this process and the reason for selecting a particular allocator is also included in the Cost Assignment and Allocation Manual (CAAM), which I have included as Exhibit___(CRH-1), Schedule 11.

There have not been any changes since the last gas rate case that would significantly impact the percentage of costs that are assigned to North Dakota.

Q. PLEASE DESCRIBE THE METHODS USED TO ALLOCATE COSTS FOR THE COMPANY'S GAS UTILITY OPERATIONS IN NORTH DAKOTA.

A. O&M cost assignments and allocations are summarized in Volume 3 Section VII Workpaper B3. The expense budgets relied upon to develop test year income statement items were generally prepared on a functional basis (*i.e.,* Production, Transmission, Distribution, Customer Accounts, Customer Information, Sales, Administrative and General). These functional amounts are directly assigned to North Dakota jurisdiction gas operations or allocated to the gas operations based on cost causation.

Q. PLEASE EXPLAIN THE PROCESS FOR ASSIGNING THE COMPANY'S INVESTMENT IN GAS PLANT TO THE NORTH DAKOTA JURISDICTION.

A. A summary and description of the allocation factors used to allocate capital related items to the North Dakota jurisdictional gas operations income statement and rate base is contained in Volume 3 Section VII Workpaper B3. Plant investments are accounted for in the manner prescribed by the FERC Uniform System of Accounts. Detailed records are maintained on a functional basis (*e.g.*, Production, Transmission, Distribution). The capital budgets, from which the projected plant balances in rate base were developed, are also prepared on a functional basis. These functional amounts are assigned to the appropriate jurisdiction directly or allocated based on the use of such assets in providing gas service in a particular jurisdiction and the underlying elements of cost causation. Customer count, design day, and load dispatch are three of the allocators used when costs cannot be directly assigned.

Q. HOW WERE THE DISTRIBUTION INVESTMENT AMOUNTS ASSIGNED TO THE NORTH DAKOTA JURISDICTION?

A. The Company's gas distribution plant investment amounts have been directly assigned, when possible, based upon the jurisdiction(s) served by each of the individual distribution facilities. Therefore, North Dakota distribution investments are generally assigned directly to North Dakota. However, if distribution investments include components that are common or general plant in nature they are allocated based on their functional class, consistent with the CAAM.

VII. ANNUAL ADJUSTMENTS TO THE TEST YEAR

Q. WHAT TOPICS DO YOU ADDRESS IN THIS SECTION OF YOUR TESTIMONY?

A. In this section of my testimony I explain adjustments that affect our proposed 2026 test year forecast revenue requirement. These adjustments were identified during our review of the budget and preparation for this case. An individual adjustment may be related to a previous Commission Order, reflect Commission policy or traditional ratemaking treatment, or may be proposed to address a situation particular to this rate case. In this section I provide details related to each adjustment and explain why each is necessary in order to present a representative level of rate base or costs in the test year forecast.

Q. PLEASE DESCRIBE THE TYPES OF ADJUSTMENTS MADE TO THE 2026 TEST YEAR.

A. I present traditional adjustments consistent with treatment in prior cases and existing Commission Policy Statements (Precedential Adjustments) and rate case adjustments related to this particular case (Rate Case Adjustments). Next, I explain the various amortizations affecting the test year (Amortizations), and a group of adjustments that are the result of secondary dynamic calculations in the cost of service model (Secondary COS Calculations).

Q. PLEASE LIST THE 2026 TEST YEAR ADJUSTMENTS.

A. The following adjustments were made to rate base and the income statement where applicable. Rate base adjustments are shown on Exhibit___(CRH-1), Schedule 7, 2026 test year Bridge Schedule - Rate Base, and income statement (revenue requirement) adjustments are shown on Exhibit___(CRH-1), Schedule 8, 2026 test year Bridge Schedule - Income Statement. Column 7 of the Rate Base bridge schedule shows the 2026 unadjusted rate base by each component of rate base. Each adjustment to rate base is contained within a column that shows its effect on each rate base component. Likewise, Column 7 of the Income Statement bridge schedule shows the 2026 unadjusted income statement by each component of the income statement. As with rate base, each adjustment to the income statement is contained within a column that shows its effect on each income statement component. In addition, the Income Statement bridge schedule shows the impact of each rate base and income statement adjustment on the revenue requirement. Exhibit___(CRH-1), Schedule 10, List of Adjustments, provides adjustment amounts for the 2026 test year.

<u>Rate Case Adjustments</u>

1. Bad Debt
2. Dues: Chamber of Commerce
3. Foundation and Other Donations
4. Economic Development Donations

5. Long Term Incentive (LTI) Compensation
6. Depreciation Study: Remaining Life
7. Depreciation Study: TD&G

Amortizations

1. NOL Tax Reform Regulatory Amortization
2. Rate Case Expense Amortization

Secondary Cost of Service Calculations

1. ADIT Pro-Rate – IRS Required
2. Cash Working Capital Adjustment
3. Net Operating Loss

Each of these adjustments is discussed in more detail in this section of my testimony.

Q. IS THE 2026 O&M EXPENSE FORECAST FOR THE COMPANY'S GAS UTILITY OPERATIONS AN ACCURATE AND RELIABLE PROJECTION?

A. Yes. With the adjustments describe in this testimony, it is an accurate and reliable projection on which to base this rate request.

A. Precedential Adjustments

Q. PLEASE LIST THE PRECEDENTIAL TEST YEAR ADJUSTMENTS INCLUDED IN THE REVENUE REQUIREMENT CALCULATION.

A. Schedule 10, List of Adjustments, includes a list of Precedential Adjustments and their associated revenue requirement impact, based on past rate case precedent for the 2026 test year.

Q. HOW DOES THE COMPANY PROVIDE SUPPORT FOR THESE PRECEDENTIAL ADJUSTMENTS?

A. Treatment of these precedential adjustments has not changed from the Commission's Order in the Company's previous completed gas rate cases. As such, the Company has provided the adjustments themselves in Schedules to my direct testimony, and support for these adjustments, including a detailed description of each adjustment and supporting materials, in the workpapers identified in Schedule 10. This organization is intended to facilitate the review of and full support for each adjustment within the identified workpaper.

B. Rate Case Adjustments

1. Bad Debt

Q. PLEASE DESCRIBE THE BAD DEBT ADJUSTMENT.

A. The original calculation for 2026 bad debt expense was generated during the budget process and is a function of projected revenues multiplied by the bad debt ratio for NSPM. An analysis was performed to update the bad debt expense based upon the revenue deficiency in the 2026 test year. An adjustment is needed to incorporate into the revenue requirement the updated bad debt amount, which best reflects test year costs.

This adjustment impacts the 2026 test year revenue requirements by the amounts shown on:

- Schedule 8, page 1, row 39, column 9,
- Schedule 10, page 1, row 11, column 5,
- Volume 3, Section VIII Adjustments, Tab A7.

2. Dues: Chamber of Commerce

Q. DOES THE COMPANY'S REQUEST INCLUDE RECOVERY OF ASSOCIATION DUES PAID TO CHAMBERS OF COMMERCE?

A. Yes. The Company has included membership dues paid to various Chambers of Commerce in North Dakota in the 2026 test year. Chambers of Commerce provide an essential link between the Company and the communities it serves, allowing for improved utility service. Because membership in these organizations provides benefits to all utility customers, recovery of membership dues paid to Chambers of Commerce is appropriate. Chamber of Commerce dues are initially recorded below the line; thus, an adjustment is necessary to include Chamber of Commerce dues in test year costs.

This adjustment impacts the 2026 test year revenue requirements by the amounts shown on:

- Schedule 8, page 1, row 39, column 12,
- Schedule 10, page 1, row 12, column 5,
- Volume 3, Section VIII Adjustments, Tab A8.

3. Foundation and Other Donations

Q. PLEASE DESCRIBE THE CHARITABLE CONTRIBUTION ADJUSTMENT.

A. The Company is proposing to include 50 percent of corporate charitable contributions benefiting the State of North Dakota in the test year. An analysis was performed on contribution details to ensure that only amounts contributed to charities and institutions that could be associated with the Company's North Dakota jurisdiction were included in the cost of service.

This adjustment impacts the 2026 test year revenue requirements by the amounts shown on:

- Schedule 8, page 1, row 39, column 14,
- Schedule 10, page 1, row 13, column 5,
- Volume 3, Section VIII Adjustments, Tab A9.

4. Economic Development Donations

Q. PLEASE IDENTIFY THE COMPANY'S ECONOMIC DEVELOPMENT PROGRAMS CURRENTLY AVAILABLE.

A. The Company makes contributions to a number of regional and local economic development organizations positioned to combine resources for the purpose of maintaining and improving the long-term economic health of communities in our service territory or retaining employment opportunities and expanding the state and local tax base.

The Company can, through a donation, provide communities or organizations involved in community and economic development with either an operating grant or a one-time investment in a special project that supports the community and economic development efforts of our communities.

This adjustment impacts the 2026 test year revenue requirements by the amounts shown on:

- Schedule 8, page 1, row 39, column 13,
- Schedule 10, page 1, row 14, column 5,
- Volume 3, Section VIII Adjustments, Tab A10.

5. Long Term Incentive (LTI) Compensation

Q. PLEASE DESCRIBE THE INCENTIVE COMPENSATION ADJUSTMENT IN THE 2026 TEST YEAR.

A. We have adjusted test year costs to include the budgeted costs of the long-term incentive compensation related to Company achievement of environmental goals, public safety goals, and time-based employee retention incentives. Company witness Krug discusses incentive compensation in his direct testimony.

This adjustment impacts the 2026 test year revenue requirements by the amounts shown on:

- Schedule 8, page 1, row 39, columns 15,
- Schedule 10, page 1, rows 15-17, column 5,
- Volume 3, Section VIII Adjustments, Tab A11.

6. Depreciation Study – Remaining Life

Q. PLEASE DESCRIBE THE GAS REMAINING LIFE ADJUSTMENT.

A. This adjustment updates the 2026 test year to include the impact of lower proposed net salvage rates as a result of the 2024 Dismantling study. This adjustment is further supported by Company witness Kietzman in her direct testimony.

This adjustment impacts the 2026 test year revenue requirements by the amounts shown on:

- Schedule 7, page 1, row 46, column 6,
- Schedule 8, page 1, row 39, column 10,
- Schedule 10, page 1, row 18, column 5,
- Volume 3, Section VIII Adjustments, Tab A13.

7. Depreciation Study – Transmission, Distribution, and General

Q. PLEASE DESCRIBE THE GAS TD&G ADJUSTMENT.

A. This adjustment updates the 2026 test year to include the impact of the Company's proposed depreciation rates for TD&G assets. This adjustment is further supported by Company witness Kietzman in her direct testimony.

This adjustment impacts the 2026 test year revenue requirements by the amounts shown on:

- Schedule 7, page 1, row 46, column 6,
- Schedule 8, page 1, row 39, column 11,
- Schedule 10, page 1, row 19, column 5,
- Volume 3, Section VIII Adjustments, Tab A12.

C. Amortizations

1. NOL Tax Reform Regulatory Amortization

Q. PLEASE DESCRIBE THE NOL TAX REFORM REGULATORY AMORTIZATION.

A. The Commission's Order in Case No. PU-18-156 approved the Company's proposed amortization level included in the TCJA refund calculation. This is being amortized over 23 years. This adjustment impacts the 2026 test year revenue requirements by the amounts shown on:

- Schedule 7, page 1, row 46, column 8,
- Schedule 8, page 1, row 39, column 16,
- Schedule 10, page 1, row 22, column 5,
- Volume 3, Section VIII Adjustments, Tab A14.

2. *Rate Case Expense Amortization*

Q. PLEASE DESCRIBE THE 2026 RATE CASE EXPENSES AMORTIZATION.

A. The Company requests approval of $1.381 million of projected direct expenses associated with this rate case docket and a three-year amortization period. A three-year amortization period is consistent with our requested amortization period for other amortizations in prior rate cases.

Q. WHAT ELSE IS INCLUDED IN THE REQUESTED RATE CASE EXPENSE AMOUNT IN THE 2026 TEST YEAR?

A. Based on the Settlement Agreement in PU-23-367, rate case expense was amortized over a three-year period from 2024 to 2026. The Company has included an adjustment for the prior amortization to account for the amortization periods that will not be completed prior to the implementation of interim rates.

This adjustment impacts the 2026 test year revenue requirements by the amounts shown on:

- Schedule 8, page 1, row 39, column 17,
- Schedule 10, page 1, row 23, column 5,
- Volume 3, Section VIII Adjustments, Tab A15.

D. Secondary Cost of Service Calculations

1. *ADIT Prorate – IRS Required*

Q. PLEASE DESCRIBE THE ADIT PRORATE ADJUSTMENT THAT IS REQUIRED BY THE IRS AND INCLUDED IN THESE SECONDARY CALCULATIONS.

A. In general, the IRS tax regulations in Sec. 1.167(l) define a prorated schedule for the extent average accumulated deferred income taxes can be used to reduce rate base to comply with the tax normalization requirements of the Code when forecast information is used to set rates. Given that the Company's filing utilizes forecast test year data, this condition applies. This has been supported by a number of Private Letter Rulings (PLRs) issued by the IRS.

This secondary calculation limits the ADIT deduction from rate base by applying the IRS defined prorate method to only the forecast entries to this balance.

This adjustment impacts the 2026 test year revenue requirements by the amounts shown on:

- Schedule 7, page 1, row 46, column 9,
- Schedule 8, page 1, row 39, column 18,
- Schedule 10, page 1, row 26-27, column 5,
- Volume 3, Section VIII Adjustments, Tab A16.

2. Cash Working Capital Adjustment

Q. PLEASE DESCRIBE THE CASH WORKING CAPITAL ADJUSTMENT BEING MADE AS A SECONDARY CALCULATION.

A. As discussed earlier in Section IV.D, Other Rate Base, the Company has incorporated a secondary calculation to apply the various revenue lead days and expense lag days to the various income statement components to result in the appropriate cash working capital rate base adjustment.

This adjustment impacts the 2026 test year revenue requirements by the amounts shown on:

- Schedule 7, page 1, row 46, column 10,

- Schedule 8, page 1, row 39, column 19,
- Schedule 10, page 1, row 28, column 5,
- Volume 3, Section VIII Adjustments, Tab A17.

3. Change in the Cost of Capital

Q. PLEASE DESCRIBE THE IMPACT OF THE CHANGE IN THE COST OF CAPITAL ADJUSTMENT.

A. The revenue requirements associated with the above adjustments described in this section of my testimony are calculated using the approved cost of capital in our last rate case. We calculate the revenue requirement impact of each adjustment at our currently authorized overall ROR of 7.36 percent (which includes the currently authorized ROE of 9.9 percent) so that changes in the overall cost of capital that occur during the duration of the rate case do not affect the revenue requirements for each adjustment. The change in cost of capital adjustment reflects the impact of the change in the approved ROR (7.36 percent) and proposed ROR (7.90 percent with a 10.85 percent ROE) for all the rate base and income statement adjustments.

This adjustment impacts the 2026 test year revenue requirements by the amounts shown on:

- Schedule 8, page 1, row 39, column 20,
- Volume 3, Section VIII Adjustments, Tab A18.

4. Net Operating Loss

Q. PLEASE DESCRIBE THE COMPANY'S NET OPERATING LOSS POSITION.

A. The Company's income tax determination was in a NOL position in 2025. This means that more deductions existed than needed to bring taxable income to zero. The Company also has tax credits that have been deferred and tracked for use in future periods. NOLs, unused tax credits, and the associated ratemaking treatment are discussed in detail earlier in my testimony in Section V. D. Taxes.

This adjustment impacts the 2026 test year revenue requirements by the amounts shown on:

- Schedule 8, page 1, row 39, column 21,
- Schedule 10, page 1, row 29, column 5,
- Volume 3, Section VIII Adjustments, Tab A19.

E. Rebuttal Adjustments

Q. WHAT INFORMATION DO YOU PROVIDE IN THIS SECTION?

A. In this section, I provide details related to two adjustments we identified during our final quality assurance reviews performed just prior to this filing. These adjustments reflect small changes we believe are necessary but that we identified after we finalized our cost of service and rate design. Therefore, we were not able to incorporate these adjustments into the COSS due to timing constraints. We propose to incorporate these adjustments into the 2026 test year revenue requirement when we file Rebuttal Testimony.

1. Prepaid Pension Asset

Q. PLEASE DESCRIBE THE REBUTTAL ADJUSTMENT RELATED TO THE PREPAID PENSION ASSET.

A. When completing final validations of the cost of service, the Company identified it had incorrectly allocated a portion of the prepaid pension asset to the North Dakota Gas Jurisdiction. An adjustment was made to the interim revenue requirement, and the Company will update the COSS in rebuttal. This adjustment reduces the 2026 test year revenue requirements by approximately $6,000.

2. Gas Ops Project Updates

Q. PLEASE DESCRIBE THE REBUTTAL ADJUSTMENT RELATED TO THE GAS OPS PROJECT UPDATE.

A. When completing final validations of the Gas Operations budget for the 2026 test year, a series of reliability projects in the Fargo area were identified where the actual and anticipated spend had shifted compared to the original 2026 test year's budget. These items are discussed further by Company witness Connoy. An adjustment was made to the interim revenue requirement, and the Company will update the COSS in rebuttal. This adjustment reduces the 2026 test year revenue requirements by approximately $58,000.

VIII. COMPLIANCE MATTERS

Q. DID YOU REVIEW PRIOR COMMISSION ORDERS AS PART OF THE DEVELOPMENT OF THE TEST YEAR REVENUE REQUIREMENT?

A. Yes. I describe below the various Commission Orders that were reviewed and addressed in preparing the test year. I discussed required adjustments related to each of these items earlier in my testimony. The Filing Requirements Compliance Table included in the testimony of Company witness Krug, Exhibit___(ADK-1), Schedule 2, documents how our rate case filing includes information submitted in compliance with these prior Commission orders.

1. Long Term Incentive

Portions of long-term incentive have been excluded from the test year as part of our incentive adjustment, which is discussed in Section VII of my testimony. However, as discussed in the direct testimony of Company witness Krug, the Company is requesting recovery of the environmental, public safety, and time base portion of its Long-Term Incentive Plan. I discuss the inclusion of these costs in our request above.

The Company has removed all expenses associated with the Company's Supplemental Executive Retirement Plan (SERP) from its base data, which is consistent with prior Commission practice.

2. Organizational Dues

Consistent with prior Commission orders, only organizational dues related to North Dakota gas operations were allowed recovery in gas rates. Any organizational dues not related to the gas operations supporting the State of North Dakota have been eliminated from the test year in our association dues adjustment.

3. Lobbying Expense

Q. ARE ANY COSTS RELATED TO CIVIC OR POLITICAL ACTIVITIES (LOBBYING), IDENTIFIED IN THE COST OF SERVICE, OR ADJUSTMENTS?

A. No. The Company moved all lobbying costs to below the line accounting, FERC account 426.4, Expenditures for certain civic, political, and related activities. Thus, no adjustment to the cost of service for lobbying is required, as these below-the-line amounts are not used in developing the cost of service.

IX. CONCLUSION

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS TO THE COMMISSION.

A. I recommend that the Commission determine an overall retail revenue requirement of $129.154 million and revenue deficiency of $13.761 million for the Company's North Dakota jurisdictional gas operation, determined by the cost of service for the 2026 test year. I also recommend the Commission grant an interim rate increase of $12.301 million for the Company's North Dakota jurisdictional operation.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

Statement of Qualifications of Charles R. Henckler

Principal Rate Analyst
Revenue Requirements–North

Xcel Energy Services Inc.
401 Nicollet Mall
Minneapolis, MN 55401

<u>Current Responsibilities</u>

Since October 2023, I have worked as a Principal or Senior Rate Analyst in the Revenue Requirements–North department. In this position, I prepare and support cost of service studies, revenue requirement determinations, and jurisdictional annual reports for the electric and gas operations of Northern States Power Company to the North Dakota Public Service Commission, the Minnesota Public Utilities Commission, the South Dakota Public Utilities Commission, and the Federal Energy Regulatory Commission.

<u>Employment History</u>

Xcel Energy – Minneapolis, MN

- Principal Rate Analyst Revenue Requirements–North, September 2024 to Present
- Senior Rate Analyst Revenue Requirements–North, October 2023 to August 2024
- Senior Accountant Utility Accounting, Feb 2020 to October 2023

CBRE Group, Inc – Minneapolis, MN

- Senior Accountant, 2017-2020

Visionary Medical Supplies – Madison, WI

- Accounting and Administration, 2012-2017

<u>Education</u>

University of Wisconsin at Whitewater
Bachelor of Business Administration in Accounting

Summary of Revenue Requirments
($000's)

Line	Description	Adjusted Proposed Test Year 2026
1	Average Rate Base	$235,117
2	Operating Income (Before AFUDC)	$8,171
3	Allowance for Funds Used During Construction	$0
4	Total Available for Return (Line 2 + Line 3 + Rounding)	$8,171
5	Overall Rate of Return (Line 4 / Line 1)	3.48%
6	Required Rate of Return	7.90%
7	Operating Income Requirement (Line 1 x Line 6)	$18,574
8	Income Deficiency (Line 7 - Line 4)	$10,403
9	Gross Revenue Conversion Factor	1.32284
10	Revenue Deficiency (Line 8 x Line 9)	$13,761
11	Retail Related Revenue Under Present Rates	$115,393
12	Percentage Increase Needed in Overall Revenue (Line 10 / Line 11)	11.93%

Cost of Service Study (COSS)
($000's)

	2026 Test Year		
	Total	ND Gas	Other
Composite Income Tax Rate			
State Tax Rate	4.31%	4.31%	4.31%
Federal Statuatory Tax Rate	21.00%	21.00%	21.00%
Federal Effective Tax Rate	20.09%	20.09%	20.09%
Composite Tax Rate	**24.40%**	**24.40%**	**24.40%**
Revenue Conversion Factor (1/(1--Composite Tax Rate))	1.322837	1.322837	1.322837
Weighted Cost of Capital			
Active Rates and Ratios Version	Proposed	Proposed	Proposed
Cost of Short Term Debt	4.56%	4.56%	4.56%
Cost of Long Term Debt	4.64%	4.64%	4.64%
Cost of Common Equity	10.85%	10.85%	10.85%
Ratio of Short Term Debt	0.42%	0.42%	0.42%
Ratio of Long Term Debt	47.08%	47.08%	47.08%
Ratio of Common Equity	52.50%	52.50%	52.50%
Weighted Cost of STD	0.02%	0.02%	0.02%
Weighted Cost of LTD	2.18%	2.18%	2.18%
Weighted Cost of Debt	2.20%	2.20%	2.20%
Weighted Cost of Equity	5.70%	5.70%	5.70%
Required Rate of Return	**7.90%**	**7.90%**	**7.90%**
Rate Base			
Plant Investment	2,979,764	371,111	2,608,653
Depreciation Reserve	994,754	111,047	883,707
Net Utility Plant	1,985,010	260,064	1,724,946
CWIP	8,713	1,402	7,311
Accumulated Deferred Taxes	316,645	35,928	280,716
DTA - NOL Average Balance	(34,548)	(6,214)	(28,334)
DTA - State Tax Credit Average Balance	(47)	(6)	(41)
DTA - Federal Tax Credit Average Balance	(203)	(28)	(175)
Total Accum Deferred Taxes	281,846	29,680	252,166
Cash Working Capital	(13,210)	(152)	(13,057)
Materials and Supplies	2,768	325	2,443
Fuel Inventory	15,191	1,916	13,274
Non-plant Assets and Liabilities	13,724	1,612	12,112
Customer Advances	(2,469)	(1,621)	(848)
Customer Deposits	(270)	(32)	(238)
Prepaids and Other	3,311	416	2,895
Regulatory Amortizations	866	866	-
Total Other Rate Base Items	19,911	3,330	16,581
Total Rate Base	**1,731,788**	**235,117**	**1,496,671**
Operating Revenues			
Retail	895,844	115,393	780,451
Interdepartmental	9,310		9,310
Other Operating Rev - Non-Retail	2,967	413	2,554
Total Operating Revenues	**908,121**	**115,806**	**792,315**

Cost of Service Study (COSS)
($000's)

	2026 Test Year		
	Total	ND Gas	Other
Expenses			
Operating Expenses:			
Purchased Gas	510,889	75,936	434,954
Gas Production & Storage	8,920	1,098	7,822
Gas Transmission	1,315	162	1,152
Gas Distribution	58,613	6,809	51,804
Customer Accounting	13,620	1,681	11,940
Customer Service & Information	43,946	165	43,780
Sales, Econ Dvlp & Other	70	12	58
Administrative & General	36,788	4,269	32,519
Total Operating Expenses	**674,161**	**90,132**	**584,029**
Depreciation	99,796	12,341	87,454
Amortization	2,162	604	1,559
Taxes:			
Property Taxes	31,700	2,435	29,265
ITC Amortization	(97)	(0)	(97)
Deferred Taxes	12,890	3,378	9,512
Deferred Taxes - NOL	18,715	1,394	17,321
Less State Tax Credits deferred	95	13	82
Less Federal Tax Credits deferred	405	55	350
Deferred Income Tax & ITC	32,008	4,840	27,168
Payroll & Other Taxes	4,199	470	3,728
Total Taxes Other Than Income	**67,907**	**7,745**	**60,162**
Income Before Taxes			
Total Operating Revenues	908,121	115,806	792,315
less: Total Operating Expenses	674,161	90,132	584,029
Book Depreciation	99,796	12,341	87,454
Amortization	2,162	604	1,559
Taxes Other than Income	67,907	7,745	60,162
Total Before Tax Book Income	64,095	4,984	59,111
Tax Additions			
Book Depreciation	99,796	12,341	87,454
Deferred Income Taxes and ITC	32,008	4,840	27,168
Nuclear Fuel Burn (ex. D&D)			
Nuclear Outage Accounting			
Avoided Tax Interest	2,190	721	1,470
Other Book Additions	60	60	-
Total Tax Additions	134,053	17,961	116,092
Tax Deductions			
Total Rate Base	1,731,788	235,117	1,496,671
Weighted Cost of Debt	2.20%	2.20%	2.20%
Debt Interest Expense	38,099	5,173	32,927
Nuclear Outage Accounting			
Tax Depreciation and Removals	156,103	25,748	130,354
NOL Utilized / (Generated)	66,749	4,973	61,776
Other Tax / Book Timing Differences	(3,662)	(430)	(3,232)
Total Tax Deductions	**257,289**	**35,464**	**221,826**

Cost of Service Study (COSS)
($000's)

	2026 Test Year		
	Total	ND Gas	Other
State Taxes			
State Taxable Income	(59,141)	(12,518)	(46,622)
State Income Tax Rate	4.31%	4.31%	4.31%
State Taxes before Credits	(2,549)	(540)	(2,009)
Less State Tax Credits applied	(189)	(26)	(163)
Total State Income Taxes	(2,738)	(566)	(2,173)
Federal Taxes			
Federal Sec 199 Production Deduction			
Federal Taxable Income	(56,402)	(11,953)	(44,450)
Federal Income Tax Rate	21.00%	21.00%	21.00%
Federal Tax before Credits	(11,844)	(2,510)	(9,334)
Less Federal Tax Credits	(811)	(112)	(699)
Total Federal Income Taxes	(12,655)	(2,622)	(10,034)
Total Taxes			
Total Taxes Other than Income	67,907	7,745	60,162
Total Federal and State Income Taxes	(15,394)	(3,187)	(12,206)
Total Taxes	52,513	4,558	47,955
Total Operating Revenues	**908,121**	**115,806**	**792,315**
Total Expenses	**828,632**	**107,635**	**720,997**
AFDC Debt			
AFDC Equity			
Net Income	**79,489**	**8,171**	**71,318**
Rate of Return (ROR)			
Total Operating Income	79,489	8,171	71,318
Total Rate Base	1,731,788	235,117	1,496,671
ROR (Operating Income / Rate Base)	4.59%	3.48%	4.77%
Return on Equity (ROE)			
Net Operating Income	79,489	8,171	71,318
Debt Interest (Rate Base * Weighted Cost of Debt)	(38,099)	(5,173)	(32,927)
Earnings Available for Common	41,390	2,999	38,391
Equity Rate Base (Rate Base * Equity Ratio)	909,189	123,436	785,752
ROE (earnings for Common / Equity)	**4.55%**	**2.43%**	**4.89%**
Revenue Deficiency			
Required Operating Income (Rate Base * Required Return)	136,811	18,574	118,237
Net Operating Income	79,489	8,171	71,318
Operating Income Deficiency	57,322	10,403	46,919
Revenue Conversion Factor (1/(1--Composite Tax Rate))	1.322837	1.322837	1.322837
Revenue Deficiency (Income Deficiency * Conversion Factor)	**75,828**	**13,761**	**62,067**
Total Revenue Requirements			
Total Retail Revenues	905,154	115,393	789,761
Revenue Deficiency	75,828	13,761	62,067
Total Revenue Requirements	980,982	129,154	851,828

Detailed Rate Case Drivers
Test Year Drivers - Revenue Requirements - Incremental
Amounts in millions

	Increase (Decrease) 2026 TY to 2024 TY	Increase (Decrease) 2026 TY to 2024 Actuals WN
Capital Related		
Distribution	4.8	4.1
Gas Production and Storage	1.9	2.2
General	0.8	0.9
Transmission	0.4	0.2
Intangible	0.1	0.2
Other Rate Base	0.2	0.4
ROE Change	1.2	1.2
TOTAL Capital Related	9.5	9.3
Amortizations	0.3	0.5
Taxes		
Current and Deferred Income Taxes	2.2	1.9
Property Tax	0.4	0.4
Payroll Tax	0.1	0.0
TOTAL Taxes	2.8	2.3
Operating Expense		
Gas Production and Storage	0.0	(0.0)
MGP	(1.3)	(1.1)
Transmission	(0.1)	(0.1)
Distribution	1.5	0.7
Customer Accounting / Info / Service	0.4	0.0
A&G	1.1	0.5
TOTAL O&M	1.6	0.0
Other Margin Impacts		
Sales Change	(1.6)	(1.9)
Other Revenue	1.3	1.2
TOTAL Other Margin Impacts	(0.3)	(0.7)
TOTAL Net Incremental Deficiency	**13.8**	**11.5**

OPERATING REVENUES, OPERATING EXPENSE,
TOTAL AVAILABLE FOR RETURN WITH PRESENT AND FINAL RATES
(000's)

Line No.	Description	Test Year Ending 12/31/2026 Present Rates	Final Increase	Test Year Ending 12/31/2026 Final Rates
		(A)	(B)	(C) = (B) + (A)
	Operating Revenues			
1	Retail	$115,393	$13,761	$129,154
2	Interdepartmental	0		0
3	Other Operating	413		413
4	Gross Earnings Tax	0		0
5	Total Operating Revenues	$115,806	$13,761	$129,568
	Expenses			
	Operating Expenses:			
6	Purchased Gas	$75,936		$75,936
7	Gas Production & Storage	1,098		1,098
8	Gas Transmission	162		162
9	Gas Distribution	6,809		6,809
10	Customer Accounting	1,681		1,681
11	Customer Service & Information	165		165
12	Sales, Econ Dvlp & Other	12		12
13	Administrative & General	4,269		4,269
14	Total Operating Expenses	$90,132	$0	$90,132
15	Depreciation	$12,341		$12,341
16	Amortizations	604		604
	Taxes:			
17	Property	$2,435		$2,435
18	Gross Earnings	0		0
19	Deferred Income Tax & ITC	4,840		4,840
20	Federal & State Income Tax	(3,187)	3,358	171
21	Payroll & Other	470		470
22	Total Taxes	$4,558	$3,358	$7,916
23	Total Expenses	$107,635	$3,358	$110,993
24	AFUDC	$0	$0	$0
25	Total Operating Income	$8,171	$10,403	$18,574

Statement of Operating Income
(000's)

Line No.	Description	2026 Test Year Unadjusted	Adjustments	2026 Test Year Adjusted
		(A)	(B)	(C) = (B) + (A)
	Operating Revenues			
1	Retail	$115,393	$0	$115,393
2	Interdepartmental	0	0	0
3	Other Operating	413	0	413
4	Gross Earnings Tax	0	0	0
5	Total Operating Revenues	$115,806	$0	$115,806
	Expenses			
	Operating Expenses:			
6	Purchased Gas	$75,936	$0	$75,936
7	Gas Production & Storage	1,098	0	1,098
8	Gas Transmission	162	0	162
9	Gas Distribution	6,809	0	6,809
10	Customer Accounting	1,612	69	1,681
11	Customer Service & Information	205	(40)	165
12	Sales, Econ Dvlp & Other	8	4	12
13	Administrative & General	4,363	(95)	4,269
14	Total Operating Expenses	$90,194	($62)	$90,132
15	Depreciation	$12,755	($413)	$12,341
16	Amortizations	$0	$604	$604
	Taxes:			
17	Property	$2,435	$0	$2,435
18	Gross Earnings	0	0	0
19	Deferred Income Tax & ITC	4,777	63	4,840
20	Federal & State Income Tax	(3,110)	(77)	(3,187)
21	Payroll & Other	471	(0)	470
22	Total Taxes	$4,573	($15)	$4,558
23	Total Expenses	$107,522	$113	$107,635
24	Allowance for Funds Used During Construction	$0	$0	$0
25	Total Operating Income	$8,284	($113)	$8,171

OPERATING REVENUES, OPERATING EXPENSE,
TOTAL AVAILABLE FOR RETURN WITH PRESENT AND FINAL RATES
(000's)

Line No.	Description	Current Ending 12/31/2025 Present Rates	Final Increase	Current Ending 12/31/2025 Final Rates
		(A)	(B)	(C) = (B) + (A)
	Operating Revenues			
1	Retail	$98,422	$5,498	$103,920
2	Interdepartmental	$0		0
3	Other Operating	$463		463
4	Gross Earnings Tax	$0		0
5	Total Operating Revenues	$98,885	$5,498	$104,384
	Expenses			
	Operating Expenses:			
6	Purchased Gas	$58,882		$58,882
7	Gas Production & Storage	$1,133		1,133
8	Gas Transmission	$213		213
9	Gas Distribution	$5,233		5,233
10	Customer Accounting	$1,358		1,358
11	Customer Service & Information	$264		264
12	Sales, Econ Dvlp & Other	$8		8
13	Administrative & General	$3,928		3,928
14	Total Operating Expenses	$71,020	$0	$71,020
15	Depreciation	$10,754		$10,754
16	Amortizations	$196		196
	Taxes:			
17	Property	$2,140		$2,140
18	Gross Earnings	$0		0
19	Deferred Income Tax & ITC	$2,658		2,658
20	Federal & State Income Tax	($0)	1,342	1,342
21	Payroll & Other	$413		413
22	Total Taxes	$5,212	$1,342	$6,554
23	Total Expenses	$87,182	$1,342	$88,523
24	AFUDC	$0	$0	$0
25	Total Operating Income	$11,703	$4,156	$15,859

Statement of Operating Income
(000's)

Line No.	Description	2025 Current Yr Unadjusted	Adjustments	2025 Current Yr Adjusted
		(A)	(B)	(C) = (B) + (A)
	Operating Revenues			
1	Retail	$98,422	$0	$98,422
2	Interdepartmental	0	0	0
3	Other Operating	463	0	463
4	Gross Earnings Tax	0	0	0
5	Total Operating Revenues	$98,885	$0	$98,885
	Expenses			
	Operating Expenses:			
6	Purchased Gas	$58,882	$0	$58,882
7	Gas Production & Storage	1,133	0	1,133
8	Gas Transmission	213	0	213
9	Gas Distribution	5,233	0	5,233
10	Customer Accounting	1,358	0	1,358
11	Customer Service & Information	298	(34)	264
12	Sales, Econ Dvlp & Other	5	3	8
13	Administrative & General	4,010	(82)	3,928
14	Total Operating Expenses	$71,133	($113)	$71,020
15	Depreciation	$10,772	($18)	$10,754
16	Amortizations	$0	$196	$196
	Taxes:			
17	Property	$2,140	$0	$2,140
18	Gross Earnings	0	0	0
19	Deferred Income Tax & ITC	2,665	(7)	2,658
20	Federal & State Income Tax	(0)	(0)	(0)
21	Payroll & Other	413	(0)	413
22	Total Taxes	$5,219	($7)	$5,212
23	Total Expenses	$87,124	$58	$87,182
24	Allowance for Funds Used During Construction	$0	$0	$0
25	Total Operating Income	$11,761	($58)	$11,703

OPERATING REVENUES, OPERATING EXPENSE,
TOTAL AVAILABLE FOR RETURN WITH PRESENT AND FINAL RATES
(000's)

Line No.	Description	WN Actual Year Ending 12/31/24 Present Rates	Final Increase	WN Actual Year Ending 12/31/24 Final Rates
		(A)	(B)	(C) = (B) + (A)
	Operating Revenues			
1	Retail	$96,333	$12,266	$108,599
2	Interdepartmental	$0		0
3	Other Operating	$387		387
4	Gross Earnings Tax	$0		0
5	Total Operating Revenues	$96,720	$12,266	$108,987
	Expenses			
	Operating Expenses:			
6	Purchased Gas	$57,193		$57,193
7	Gas Production & Storage	$1,234		1,234
8	Gas Transmission	$199		199
9	Gas Distribution	$6,873		6,873
10	Customer Accounting	$1,409		1,409
11	Customer Service & Information	$183		183
12	Sales, Econ Dvlp & Other	$6		6
13	Administrative & General	$3,865		3,865
14	Total Operating Expenses	$70,962	$0	$70,962
15	Depreciation	$12,761		$12,761
16	Amortizations	$339		339
	Taxes:			
17	Property	$2,651		$2,651
18	Gross Earnings	$0		0
19	Deferred Income Tax & ITC	$1,094		1,094
20	Federal & State Income Tax	$0	2,994	2,994
21	Payroll & Other	$460		460
22	Total Taxes	$4,205	$2,994	$7,198
23	Total Expenses	$88,267	$2,994	$91,261
24	AFUDC	$0	$0	$0
25	Total Operating Income	$8,453	$9,273	$17,725

Statement of Operating Income
(000's)

Line No.	Description	2024 WN Actual Year Unadjusted	Adjustments	2024 WN Actual Ye: Adjusted
		(H)	(I)	(J)
	Operating Revenues			(Col F + G)
1	Retail	$96,333	$0	$96,333
2	Interdepartmental	0	0	0
3	Other Operating	387	0	387
4	Gross Earnings Tax	0	0	0
5	Total Operating Revenues	$96,720	$0	$96,720
	Expenses			
	Operating Expenses:			
6	Purchased Gas	$57,193	$0	$57,193
7	Gas Production & Storage	1,234	0	1,234
8	Gas Transmission	199	0	199
9	Gas Distribution	6,873	0	6,873
10	Customer Accounting	1,409	0	1,409
11	Customer Service & Information	223	(40)	183
12	Sales, Econ Dvlp & Other	6	0	6
13	Administrative & General	4,093	(228)	3,865
14	Total Operating Expenses	$71,230	($268)	$70,962
15	Depreciation	$12,761	$0	$12,761
16	Amortizations	$0	$339	$339
	Taxes:			
17	Property	$2,651	$0	$2,651
18	Gross Earnings	0	0	0
19	Deferred Income Tax & ITC	2,231	(1,137)	1,094
20	Federal & State Income Tax	(994)	994	0
21	Payroll & Other	460	(0)	460
22	Total Taxes	$4,348	($143)	$4,205
23	Total Expenses	$88,340	($73)	$88,267
24	Allowance for Funds Used During Construction	$0	$0	$0
25	Total Operating Income	$8,380	$73	$8,453

COMPARISON OF DETAILED RATE BASE COMPONENTS
($000s)

Line No.	Description	General Rate Case Filing Case No. PU-23-413 Final Rates (A)	General Rate Case Filing Case No. PU-26-___ Test Year (B)	Change (C) = (B) - (A)
	Gas Plant as Booked			
1	Gas Manufactured Plant	$11,445	$21,428	$9,983
2	Gas Storage	$14,311	$21,765	7,454
3	Gas Transmission	$1,574	$6,555	4,982
4	Gas Distribution	$214,184	$278,270	64,085
5	General	$19,609	$25,097	5,489
6	Common	16,280	17,996	1,716
7	TOTAL Utility Plant in Service	$277,402	$371,111	$93,709
8				
9	Reserve for Depreciation			
10	Gas Manufactured Plant	$2,944	$5,020	$2,076
11	Gas Storage	$8,376	$9,875	1,500
12	Gas Transmission	$1,807	$2,001	194
13	Gas Distribution	$66,906	$75,597	8,691
14	General	$7,878	$10,202	2,324
15	Common	8,077	$8,352	275
16	TOTAL Reserve for Depreciation	$95,987	$111,047	$15,060
17				
18	Net Utility Plant in Service			
19	Gas Manufactured Plant	$8,501	$16,408	$7,907
20	Gas Storage	$5,935	$11,889	5,954
21	Gas Transmission	($233)	$4,555	4,788
22	Gas Distribution	$147,278	$202,673	55,395
23	General	$11,731	$14,895	3,165
24	Common	8,204	$9,645	1,441
25	Net Utility Plant in Service	$181,415	$260,064	$78,649
26				
27	Utility Plant Held for Future Use	$0	$0	$0
28				
29	Construction Work in Progress	$0	$1,402	$1,402
30				
31	Less: Accumulated Deferred Income Taxes	$22,835	$29,680	$6,845
32				
33	Other Rate Base Items:			
34	Cash Working Capital	($720)	($152)	$568
35	Materials and Supplies	$306	$325	$20
36	Fuel Inventory	$6,008	$1,916	(4,092)
37	Non-Plant Assets & Liabilities	$1,049	$1,612	563
38	Customer Advances	($1,560)	($1,621)	(61)
39	Interest on Customer Deposits	($20)	($32)	(11)
40	Prepaids and Other	$287	$416	129
41	Regulatory Amortizations	$990	$866	(124)
42	Total Other Rate Base Items	$6,338	$3,330	($3,008)
43				
44	Total Average Rate Base	$164,918	$235,117	$70,198

1	2	3	4	5	6	7	8	9	10	11	12	13	14
		Bridge - As Filed							Amortization	Secondary Calculations			
Line No.		ADIT Prorate for IRS	Cash Working Capital	Net Operating Loss	Unadjusted	Total Unadjusted	Depreciation Study: Remaining Life	Depreciation Study: TD&G	NOL ADIT ARAM	ADIT Prorate for IRS	Cash Working Capital	Net Operating Loss	Total As Filed
1													
2	Plant as booked												
3	Gas Manufactured Plant				21,428	21,428							21,428
4	Gas Storage				21,765	21,765							21,765
5	Gas Transmission				6,555	6,555							6,555
6	Gas Distribution				278,270	278,270							278,270
7	General				25,097	25,097							25,097
8	Common				17,996	17,996							17,996
9	Total Utility Plant in Service				371,111	371,111							371,111
10													
11	Reserve for Depreciation												
12	Gas Manufactured Plant				5,341	5,341	(321)						5,020
13	Gas Storage				9,923	9,923	(48)						9,875
14	Gas Transmission				2,003	2,003		(2)					2,001
15	Gas Distribution				75,509	75,509		88					75,597
16	General				10,119	10,119		83					10,202
17	Common				8,377	8,377		(26)					8,352
18	Total Reserve for Depreciation				111,271	111,271	(368)	144					111,047
19													
20	Net Utility Plant												
21	Gas Manufactured Plant				16,087	16,087	321						16,408
22	Gas Storage				11,841	11,841	48						11,889
23	Gas Transmission				4,553	4,553		2					4,555
24	Gas Distribution				202,761	202,761		(88)					202,673
25	General				14,978	14,978		(83)					14,895
26	Common				9,619	9,619		26					9,645
27	Net Utility Plant in Service				259,839	259,839	368	(144)					260,064
28													
29	Utility Plant Held for Future Use												
30													
31	Construction Work in Progress				1,402	1,402							1,402
32													
33	Less: Accumulated Deferred Income Taxes	(80)		(6,440)	35,989	29,470	106	(42)		7		140	29,680
34													
35	Other Rate Base Items												
36	Cash Working Capital		(229)			(229)					77		(152)
37	Materials and Supplies				325	325							325
38	Fuel Inventory				1,916	1,916							1,916
39	Non Plant Assets and Liabilities				1,612	1,612							1,612
40	Customer Advances				(1,621)	(1,621)							(1,621)
41	Customer Deposits				(32)	(32)							(32)
42	Prepayments				416	416							416
43	Regulatory Amortizations								866				866
44	Total Other Rate Base		(229)		2,616	2,387			866		77		3,330
45													
46	Total Average Rate Base	80	(229)	6,440	227,869	234,159	263	(101)	866	(7)	77	(140)	235,117

Income Statement Adjustment Bridge Schedule ($000)

1	2	3	4	5	6	7	8	9	10	11	12	13	14
		Bridge - As Filed					Precedential	Adjustment					
Line No.		ADIT Prorate for IRS	Cash Working Capital	Net Operating Loss	Unadjusted	Total Unadjusted	Precedential Adjustments	Bad Debt Expense	Depreciation Study: Remaining Life	Depreciation Study: TD&G	Dues: Chamber of Commerce	Economic Development Donations	Foundation and Other Donations
1	Operating Revenues												
2	Retail Revenue				115,393	115,393							
3	Other Operating				413	413							
4	Total Revenue				115,806	115,806							
5													
6	Expenses												
7	Operating Expenses												
8	Fuel & Purchased Energy				75,936	75,936							
9	Gas Production and Storage				1,098	1,098							
10	Gas Transmission				162	162							
11	Gas Distribution				6,809	6,809							
12	Customer Accounting				1,612	1,612		69					
13	Customer Service and Information				205	205	(40)						
14	Sales, Econ Dev, & Other				8	8						4	
15	Administrative and General				4,363	4,363	(256)				3		28
16	Total Operating Expenses				90,194	90,194	(296)	69			3	4	28
17													
18	Depreciation				12,755	12,755			(737)	323			
19	Amortization												
20													
21	Taxes												
22	Property				2,435	2,435							
23	Deferred Income Tax and ITC			1,157	3,262	4,419			211	(96)			
24	Federal and State Income Tax	(0)	1	(1,047)	(1,730)	(2,777)	72	(17)	(1)	1	(1)	(1)	(7)
25	Payroll and Other				471	471	(0)						
26	Total Taxes	(0)	1	110	4,437	4,548	72	(17)	210	(95)	(1)	(1)	(7)
27													
28	Total Expenses	(0)	1	110	107,386	107,497	(224)	52	(527)	228	2	3	21
29													
30	Allowance for Funds Used During Construction												
31													
32	Net Income	0	(1)	(110)	8,419	8,309	224	(52)	527	(228)	(2)	(3)	(21)
33													
34	Calculation of Revenue Requirements												
35	Rate Base	80	(229)	6,440	227,869	234,159			263	(101)			
36	Required Operating Income	6	(17)	474	16,771	17,234			19	(7)			
37	Operating Income	0	(1)	(110)	8,419	8,309	224	(52)	527	(228)	(2)	(3)	(21)
38	Income Deficiency	5	(16)	584	8,352	8,925	(224)	52	(507)	221	2	3	21
39	**Revenue Deficiency**	**7**	**(21)**	**772**	**11,048**	**11,807**	**(296)**	**69**	**(671)**	**292**	**3**	**4**	**28**

Income Statement Adjustment Bridge Schedule ($000)

1	2	15	16	17	18	19	20	21	22
			Amortization		Secondary Calculations				
Line No.		LTI	NOL ADIT ARAM	Rate Case Expenses	ADIT Prorate for IRS	Cash Working Capital	Change in Cost of Capital	Net Operating Loss	Total As Filed
1	Operating Revenues								
2	Retail Revenue								115,393
3	Other Operating								413
4	Total Revenue								115,806
5									
6	Expenses								
7	Operating Expenses								
8	Fuel & Purchased Energy								75,936
9	Gas Production and Storage								1,098
10	Gas Transmission								162
11	Gas Distribution								6,809
12	Customer Accounting								1,681
13	Customer Service and Information								165
14	Sales, Econ Dev, & Other								12
15	Administrative and General	131							4,269
16	Total Operating Expenses	131							90,132
17									
18	Depreciation								12,341
19	Amortization		60	544					604
20									
21	Taxes								
22	Property								2,435
23	Deferred Income Tax and ITC							305	4,840
24	Federal and State Income Tax	(32)	(5)	(133)	0	(0)	(23)	(265)	(3,187)
25	Payroll and Other								470
26	Total Taxes	(32)	(5)	(133)	0	(0)	(23)	40	4,558
27									
28	Total Expenses	99	55	411	0	(0)	(23)	40	107,635
29									
30	Allowance for Funds Used During Construction								
31									
32	Net Income	(99)	(55)	(411)	(0)	0	23	(40)	8,171
33									
34	Calculation of Revenue Requirements								
35	Rate Base		866		(7)	77		(140)	235,117
36	Required Operating Income		64		(1)	6	1,270	(10)	18,574
37	Operating Income	(99)	(55)	(411)	(0)	0	23	(40)	8,171
38	Income Deficiency	99	119	411	(0)	5	1,247	30	10,403
39	**Revenue Deficiency**	**131**	**157**	**544**	**(1)**	**7**	**1,649**	**40**	**13,761**

Budgeting Accuracy

NSPM Total Company Actual versus Budget O&M ($millions)

Year	Budget Amount	Actual Amount	$ Variance	% Variance
2024	$1,285	$1,289	$4	0.3%
2023	$1,245	$1,276	$31	2.5%
2022	$1,205	$1,228	$23	1.9%
Three-Year Total	$3,735	$3,793	$58	1.5%

NSPM Gas Utility Actual versus Budget O&M ($millions)

Year	Budget Amount	Actual Amount	$ Variance	% Variance
2024	$93	$104	$11	11.8%
2023	$91	$99	$8	8.8%
2022	$89	$95	$6	6.2%
Three-Year Total	$273	$298	$25	9.0%

Northern States Power Company
State of ND Gas Jurisdiction
Adjustment Summary
$000

(1) Line No.	(2) Record Category	(3) Report Label	(4) Record Type	(5) ND Gas 2026 Test Year	(6) Workpaper Reference
1	Unadjusted	Unadjusted	**Total Unadjusted**	**12,646**	
2					
3	Precedential	Precedential Adjustments	NSPM-Advertising (Trad)	(74)	A1
4	Precedential	Precedential Adjustments	NSPM-Assn Dues (Trad)	(7)	A2
5	Precedential	Precedential Adjustments	NSPM-Aviation	(26)	A3
6	Precedential	Precedential Adjustments	NSPM-Incentive Pay	(23)	A4
7	Precedential	Precedential Adjustments	NSPM-Incentive Pay_Remove Long Term	(166)	A5
8	Precedential	Precedential Adjustments	NSPM-Pension Non-Qual SERP Removal	(1)	A6
9	Precedential		**Sub-Total Precedential**	**(296)**	
10					
11	Adjustment	Bad Debt Expense	NSPM-Bad Debt	69	A7
12	Adjustment	Dues: Chamber of Commerce	NSPM-Chamber of Commerce Dues	3	A8
13	Adjustment	Foundation and Other Donations	NSPM-Donations (Trad)	28	A9
14	Adjustment	Economic Development Donations	NSPM-Econ Dev Donations (Trad)	4	A10
15	Adjustment	LTI	NSPM-Incentive Pay_Environmental LTI	9	A11
16	Adjustment	LTI	NSPM-Incentive Pay_Public Safety LTI	36	A11
17	Adjustment	LTI	NSPM-Incentive Pay_Time Based LTI	85	A11
18	Adjustment	Depreciation Study: Remaining Life	NSPM-ND Gas Remaining Life	(669)	A12
19	Adjustment	Depreciation Study: TD&G	NSPM-ND Gas Depreciation Study TD&G	291	A13
20	Adjustment		**Sub-Total Adjustment**	**(144)**	
21					
22	Amortization	NOL ADIT ARAM	NSPM-NOL Tax Reform ADIT ARAM	163	A14
23	Amortization	Rate Case Expenses	NSPM-Amortization Rate Case Expense	544	A15
24	Amortization		**Sub-Total Amortization**	**707**	
25					
26	Secondary Calculations	ADIT Prorate for IRS	NSPM-ADIT Prorate for IRS	12	A16
27	Secondary Calculations	ADIT Prorate for IRS	NSPM-ADIT Prorate NOL for IRS	(5)	A16
28	Secondary Calculations	Cash Working Capital	NSPM-Cash Working Capital	(15)	A17
29	Secondary Calculations	Net Operating Loss	NSPM-NOL/Credits/199	856	A19
30	Secondary Calculations		**Sub-Total Secondary Calculations**	**848**	
31					
32			**Total Revenue Deficiency**	**13,761**	

Northern States Power Company

Cost Assignment and Allocation Manual

September 2025

Table of Contents

I. INTRODUCTION

This Cost Assignment and Allocation Manual ("CAAM") was developed to specify the procedures that Northern States Power Company, a Minnesota corporation ("NSPM" or the "Company") follows in assigning and allocating costs among utility departments (electric and gas), among regulated services and non-regulated business activities and among jurisdictions.

NSPM was incorporated in 2000 under the laws of Minnesota and is a wholly owned operating utility subsidiary of Xcel Energy Inc. ("Xcel Energy" or the "Parent"). Xcel Energy was initially established as a registered holding company under the Public Utility Holding Company Act of 1935 ("PUHCA 1935"), with oversight by the Securities and Exchange Commission ("SEC"). On August 8, 2005, the Energy Policy Act of 2005 was signed into law. This repealed PUHCA 1935 and enacted the Public Utility Holding Company Act of 2005 ("PUHCA 2005"), which became effective on February 8, 2006. Responsibility for oversight of public utility holding companies was transferred from the SEC to the Federal Energy Regulatory Commission ("FERC") as a result of the Energy Policy Act of 2005.

NSPM conducts business in Minnesota, North Dakota, and South Dakota and has electric operations in all three states including the generation, purchase, transmission, distribution, and sale of electricity. NSPM also purchases, transports, distributes, and sells natural gas to retail customers and transports customer-owned natural gas in Minnesota and North Dakota.

NSPM owns the following direct subsidiaries: United Power and Land Company, which holds real estate; and NSP Nuclear Corporation.

As a member of a holding company system, NSPM receives administrative, management, environmental, and other support services from Xcel Energy Services Inc. ("XES" or the "Service Company"), a centralized service company. The Service Company provides services to Xcel Energy and its subsidiaries, at cost, pursuant to service agreements. The service agreement between NSPM and XES, including all amendments to the original Service Agreement, have been submitted to, and approved by, the Minnesota Public Utilities Commission ("Commission"). The cost allocation methodologies under which XES costs are assigned and allocated are set forth in that Commission approved service agreement, and while those allocation methodologies are not the subject of this NSPM CAAM, they are referenced in several sections herein.

The Service Company is referenced in the CAAM for the following reasons:

- The Service Company is listed as an affiliate company in the Transaction with Affiliates section for the services it provides to NSPM.
- The Service Company and all other companies in the Xcel Energy holding company system of companies are included in the Corporate Organization section to provide a listing of all affiliates of NSPM.
- The Service Company is referenced in the Cost Assignment and Allocation Process section because this section covers processes that may cross multiple legal entities.

The NSPM CAAM contains the following sections:

- Introduction (Section I)
- Corporate Organization (Section II)
- Description of Services (Section III)
- Transactions with Affiliates (Section IV)
- Cost Assignment and Allocation Process (Section V)
- Utility Allocations (Section VI)
- Non-regulated Business Activity Allocations (Sections VII)
- Jurisdictional Allocations (Section VIII)

DEFINITIONS

Abbreviations or Acronyms

The following abbreviations or acronyms are used within the CAAM document:

A&G	Administrative and general
AFUDC	Allowance for funds used during construction
ACC	Allocating cost center
CAAM	Cost Assignment and Allocation Manual
CIP	Conservation improvement program
Commission	Minnesota Public Utilities Commission
FERC	Federal Energy Regulatory Commission
FICA	Federal Insurance Contributions Act
FUTA	Federal Unemployment Tax Act
GAAP	Generally Accepted Accounting Principals
HR	Human Resources
IT	Information Technology
NSPM or the Company	Norther States Power Company, a Minnesota corporation
NSPW	Northern States Power Company, a Wisconsin corporation
NSP System	The electric production and transmission system of NSPM and NSPW operated on an integrated basis and managed by NSPM
O&M	Operating and maintenance
PSCo	Public Service Company of Colorado, a Colorado corporation
PUCHA 1935	Public Utility Holding Company Act of 1935
PUCHA 2005	Public Utility Holding Company Act of 2005
RTU	Remote terminal unit
SAP	SAP general ledger and work and asset management system
SCADA	Supervisory control and data acquisition
SEC	Securities and Exchange Commission
SKF	Statistical key figure
SPS	Southwestern Public Service Company, a New Mexico corporation
SUTA	State Unemployment Tax Authority
Utility subsidiaries or operating companies	NSPM, NSPW, PSCo, and SPS
Xcel Energy or the Parent	Xcel Energy Inc. and its subsidiaries

XES or the Service Company	Xcel Energy Services Inc.

Terms

The following terms are used within the CAAM document:

Accounts Payable – the payment and reporting department of XES.

A&G – includes activity in FERC accounts 920-935.3, Administrative and General Expenses.

ACC – an organizational unit that collects cost to be allocated using the allocation ratios or factors included in the SKF.

Assessment – the process used by the accounting system to allocate costs from an ACC to the receiving cost element.

Cost Element – an organizational unit to SAP that is used to track costs in the accounting system as they move through the various processing steps.

Customer Accounting Costs – includes activity in FERC accounts 901-903, Customer Accounts Expenses; FERC accounts 906-910, Customer Service and Informational Expenses; and FERC accounts 911-916, Sales Expenses.

Final Cost Center – final cost center defined by business function, company code, and profit center.

Home Cost Center – captures only labor and payroll postings and maps to HR departments.

Internal Order – internal orders are accounting mechanisms used to track expenses associated with certain projects or functions.

Non-Operations and Maintenance Allocations – allocations designed to apportion expenses recorded in accounts other than O&M to electric, gas, thermal and nonutility. The non-O&M costs apportioned include depreciation, payroll taxes, miscellaneous service revenues, amortization expenses, etc.

O&M – includes activity in FERC accounts 500-935.3 with the exception of the following FERC accounts: 501, Fuel; 901-903, Customer Accounts Expenses; 906-910, Customer Service and Informational Expenses; 911-916, Sales Expenses; and 920-935.3, Administrative and General Expenses.

Profit Center – SAP data element that identifies the jurisdiction or joint venture owner of revenues and expenses.

Receiving Cost Element – a cost element that receives costs when a settlement or assessment process is run.

Segment – represents electric, gas, thermal, joint venture, or other and is derived by SAP from profit center and cost center.

SKF – the method by which the allocation ratios and factors are organized in the accounting system and linked to ACCs to facilitate the performance of the assessment process to allocate charges.

Supply Chain – the supply chain department of XES.

Work Breakdown Structure – structure used to group all aspects or phases of a given project or organizational group and render them easily reportable.

II. CORPORATE ORGANIZATION

OVERVIEW OF COMPANY SYSTEM

Xcel Energy Inc., a Minnesota corporation, is a registered holding company. Xcel Energy directly owns four operating public utility subsidiaries that serve electric, natural gas, thermal, and propane customers in eight states. These four utility subsidiaries are Northern States Power Company, a Minnesota corporation ("NSPM"); Northern States Power Company, a Wisconsin corporation ("NSPW"); Public Service Company of Colorado, a Colorado corporation ("PSCo"); and Southwestern Public Service Company, a New Mexico corporation ("SPS"). Their collective service territories include portions of Colorado, Michigan, Minnesota, New Mexico, North Dakota, South Dakota, Texas, and Wisconsin. Xcel Energy's regulated businesses also include WestGas Interstate, Inc., an interstate natural gas pipeline company regulated by the FERC. Xcel Energy also has three transmission-only operating companies, Xcel Energy Southwest Transmission Company, LLC ("XEST") and Xcel Energy Transmission Development Company, LLC ("XETD"), which are regulated by the FERC, and Xcel Energy West Transmission Company, LLC ("XEWT").

Xcel Energy's non-regulated subsidiaries include Eloigne Company; which holds investments in rental housing projects that qualify for low-income tax credits, Capital Services, LLC; which provides equipment for construction of renewable energy generation facilities for other subsidiaries, Venture Holdings; which invests in limited partnerships, including EIP funds with portfolios of investments in energy technology companies, and Nicollet Project holdings; which invests in Minnesota community solar gardens.

Xcel Energy owns the following additional direct subsidiaries, some of which are intermediate holding companies with additional subsidiaries: Xcel Energy Wholesale Group Inc., Xcel Energy Markets Holdings Inc., Xcel Energy International Inc., Xcel Energy Ventures Inc., Xcel Energy Retail Holdings Inc., Xcel Energy Communications Group Inc., Xcel Energy WYCO Inc., Xcel Energy Transmission Holding Company, LLC, Nicollet Holdings Company, LLC, Xcel Energy Nuclear Services Holdings, LLC, and Xcel Energy Services Inc. Xcel Energy and its subsidiaries collectively are referred to as Xcel Energy Inc., and many do business under the Xcel Energy name. See the following pages for a complete legal entity organizational listing for Xcel Energy and its subsidiaries.

LIST OF REGULATED & NON-REGULATED AFFILIATES (as of June 30, 2025)

Xcel Energy Inc.
- Northern States Power Company, a Minnesota corporation
  - Crowned Ridge Interconnection Company
  - NSP Nuclear Corporation
  - Private Fuel Storage LLC
  - United Power and Land Company
- Northern States Power Company, a Wisconsin corporation
  - Chippewa and Flambeau Improvement Company
  - Clearwater Investments, Inc.
    - Shoe Factory Holding LLC

Public Service Company of Colorado, a Colorado corporation**
- 1480 Welton, Inc.
- Beeman Irrigating Ditch and Milling Company
- Consolidated Extension Canal Company
- East Boulder Ditch Company
- Fisher Ditch Company
- Gardeners Mutual Ditch Company
- Green and Clear Lakes Company
- Hillcrest Ditch and Reservoir Company
    - Las Animas Consolidated Canal Company
- P.S.R. Investments, Inc.
- United Water Company

Southwestern Public Service Company, a New Mexico corporation

Nicollet Holdings Company, LLC
- Capital Services, LLC
- Nicollet Land Services, LLC

Nicollet Project Holdings, LLC
- Nicollet Projects I, LLC
    - Betcher CSG LLC
    - Foreman's Hill CSG LLC
    - Grimm CSG LLC
    - Heyer CSG LLC
    - Huneke CSG LLC
    - Johnson I CSG LLC
    - Johnson II CSG LLC
    - Krause CSG LLC
    - RJC I CSG LLC
    - RJC II CSG LLC
    - Scandia CSG LLC
    - School Sisters CSG LLC
    - Webster CSG LLC
- Nicollet Projects II, LLC

WestGas InterState, Inc.

Xcel Energy Communications Group Inc.
- Seren Innovations, Inc.*

Xcel Energy Foundation

Xcel Energy International Inc.*

Xcel Energy Markets Holdings Inc.
- e prime, inc.*
- Young Gas Storage Company Ltd.

Xcel Energy Nuclear Services Holdings, LLC
- Xcel Energy Nuclear Services Idaho, LLC
- Xcel Energy Nuclear Services Oregon, LLC

Xcel Energy Retail Holdings Inc.
- Reddy Kilowatt Corporation

Xcel Energy Services Inc.

Xcel Energy Transmission Holding Company, LLC

- Xcel Energy Southwest Transmission Company, LLC
- Xcel Energy Transmission Development Company, LLC
  - Xcel Energy Acorn Transmission, LLC
  - Xcel Energy Birch Transmission, LLC
- Xcel Energy West Transmission Company, LLC

Xcel Energy Venture Holdings, Inc.
- Energy Impact Fund Investment LLC
- Xcel Energy Investments, LLC

Xcel Energy Ventures Inc.
- Eloigne Company
  - Bemidji Townhouse LP
  - Chaska Brickstone LP
  - Crown Ridge Apartments LP
  - Cottage Court LP
  - Edenvale Family Housing LP
  - Fairview Ridge LP
  - Farmington Family Housing LP
  - Farmington Townhome LP
  - J&D 14-93 LP
  - Lauring Green LP
  - Links Lane LP
  - Lyndale Avenue Townhomes LP
  - Mahtomedi Woodland LP
  - Mankato Townhomes LLP
  - Marvin Garden LP
  - Moorhead Townhomes LP
  - Park Rapids Townhomes LP
  - Rochester Townhome LP
  - Rushford Housing LP
  - Safe Haven Homes, LLC
  - Shade Tree Apartments LP
  - Shakopee Boulder Ridge LP
  - Shenandoah Woods LP
  - St. Cloud Housing LP
  - Tower Terrace LP

Xcel Energy Wholesale Group Inc.*
- Quixx Corporation*
  - Quixx Carolina, Inc.*
  - Quixxlin Corp.*

Xcel Energy WYCO Inc.
- WYCO Development, LLC

* Company is being classified in discontinued operations.
** Minority-ownership ditch and water companies have been excluded.

III. DESCRIPTION OF SERVICES

OVERVIEW

This section provides a description of NSPM's regulated services and non-regulated business activities. Each description identifies the types of costs associated with the service or business activity, and identifies the business area or department which offers the service.

REGULATED SERVICES

ELECTRIC UTILITY

Electric – Residential

Residential electric service represents the provision of electric service to residential customers within the NSPM service territory. Costs associated with this service relate to the generation or purchase and delivery of electricity through Company-owned transmission and distribution facilities, primarily fuel or purchased power costs, facilities O&M and depreciation costs, and A&G costs. These costs reside within the NSPM Electric Utility.

Electric – Commercial and Industrial

Commercial and industrial electric service represents the provision of electric service to commercial and industrial customers within the NSPM service territory. Costs associated with this service relate to the generation or purchase and delivery of electricity through Company-owned transmission and distribution facilities, primarily fuel or purchased power costs, facilities O&M and depreciation costs, and A&G costs. These costs reside within the NSPM Electric Utility.

Electric – Street Lighting

Street lighting electric service represents the provision of electric service to public authorities for lighting streets, highways, parks and other public places, or for traffic or other signal system service through Company-owned or customer-owned lighting equipment. Costs associated with this service relate to the generation or purchase and delivery of electricity through Company-owned transmission and distribution facilities, primarily fuel or purchased power costs, facilities O&M and depreciation costs, and A&G costs. These costs reside within the NSPM Electric Utility.

Electric – Other Sales to Public Authorities

Other sales to public authorities' electric service represent the provision of electric service to public authorities under special agreements or contracts. Costs associated with this service relate to the generation or purchase and delivery of electricity through Company-owned transmission and distribution facilities, primarily fuel or purchased power costs, facilities O&M and depreciation costs, and A&G costs. These costs reside within the NSPM Electric Utility.

Electric - Resale

Resale electric service represents the provision of electric service to NSPM wholesale customers or public authorities for resale to end-user customers or to power marketers. Costs associated with this service relate to the generation or purchase and delivery of electricity through Company-owned transmission and distribution facilities, or through facilities owned by third parties, primarily fuel or purchased power costs, facilities O&M and depreciation costs, and A&G costs. These costs reside within the NSPM Electric Utility.

Electric - Interdepartmental

Interdepartmental electric service represents the provision of electric service to NSPM company facilities at tariff rates. Costs associated with providing this service relate to the generation or purchase and delivery of electricity through Company-owned transmission and distribution facilities, primarily fuel or purchased power costs, facilities O&M and depreciation costs, and A&G costs. These costs reside within the NSPM Electric Utility.

Off-System Electric Sales

NSPM sells electricity not required to serve its native load to off-system customers. Costs related to this activity can include fuel and purchased power costs. The revenues associated with these sales reside in FERC account 447, Sales for Resale-Electric. The costs related to this activity reside in FERC accounts 501, Fuel-Steam Generation; 555, Purchased Power; and 565, Transmission of Electricity by Others. In addition, the Company may allocate production O&M and transmission costs based on a percentage of overall sales relative to the type of off-system sales. These costs reside within the NSPM Electric Utility.

OTHER ELECTRIC OPERATING REVENUE

Rent from Electric Property

Rent from electric property results from the leasing of NSPM owned utility property not currently utilized for the provision of regulated services to non-affiliated third parties. Costs related to this service are primarily A&G costs associated with customer billings, as well as rental contract renewals. The revenue associated with the rentals resides in FERC account 454, Rent from Electric Property.

Interchange Agreement

The electric production and transmission costs of the entire NSP System are shared by NSP-Minnesota and NSP-Wisconsin. A FERC-approved Interchange Agreement between the two companies provides for the sharing of all generation and transmission costs of the NSP System based upon demand and energy ratios reflecting usage by the respective companies. The costs associated with this agreement reside in FERC account 557, Other Power Supply Expenses; and FERC 565, Transmission of Electricity by Others. The revenues reside in FERC account 456.1, Revenue from Transmission of Electricity of Others.

Joint Operating Agreement

The Joint Operating Agreement is a margin sharing agreement associated with proprietary energy trading activities. Revenues are recorded in FERC 456, Other Electric Revenues.

Miscellaneous Electric Revenue

In addition to the services detailed above, there are various activities that cannot be accounted for elsewhere, such as utility locating services, scrap metal sales, WindSource, customer connections, and refuse derived fuel incentive. These revenues are recorded in FERC account 456, Other Electric Revenues.

GAS UTILITY

Gas - Residential

Residential gas service represents the provision of natural gas service to residential customers within the NSPM service territory. Costs associated with this service relate to the purchase and delivery of gas through Company-owned facilities, primarily purchased gas, facilities O&M and depreciation costs, and A&G costs. These costs reside within the NSPM Gas Utility.

Gas – Commercial and Industrial

Commercial and industrial gas service represents the provision of natural gas service to commercial and industrial customers within the NSPM service territory. Costs associated with this service relate to the purchase and delivery of gas through Company-owned facilities, primarily purchased gas, facilities O&M and depreciation costs, and A&G costs. These costs reside within the NSPM Gas Utility. The table below shows the various rate classes within commercial and industrial gas services.

Rate Class	Maximum Requirements – Daily Therms	Maximum Requirements – Annual Therms
Small commercial	Less than 500	Less than 6,000
Large commercial	Less than 500	Greater than 6,000
Small demand billed commercial*	Less than 500	
Large demand billed commercial*	Greater than 500	

* Upstream demand costs are billed based on the highest one-day usage in the customer's history.

Gas – Interruptible

Interruptible gas service represents the provision of natural gas service to interruptible customers within the NSPM service territory. Interruptible service is subject to curtailment when either additional upstream pipeline or local distribution capacity is needed to ensure service to firm customers. Costs associated with this service relate to the purchase and delivery of gas through Company-owned facilities, primarily purchased gas, facilities O&M and depreciation costs, and A&G costs. These costs reside within the NSPM Gas Utility. The table below shows the various rate classes within interruptible gas service.

Rate Class	Maximum Requirements – Daily Therms
Small interruptible	Less than 2,000
Medium interruptible	Greater than 2,000 and less than 50,000
Large interruptible	Greater than 50,000

Gas – Large Firm Transportation

Large firm gas transportation service represents the provision of gas delivery service on behalf of end-use customers, third-party suppliers or marketers whereby NSPM transports gas owned by others over NSPM's gas pipeline system. Costs associated with this service primarily include the facilities O&M and depreciation costs and A&G costs. These costs reside within the NSPM Gas Utility.

Gas – Interruptible Transportation

Interruptible gas transportation service represents the provision of gas delivery service on behalf of end-use customers, third-party suppliers or marketers whereby NSPM transports gas owned by others over NSPM's gas pipeline system. Interruptible transportation gas service is subject to curtailment when either additional upstream pipeline or the local distribution capacity is needed to ensure service to firm customers. Costs associated with this service primarily include the facilities O&M and depreciation costs and A&G costs. These costs reside within the NSPM Gas Utility.

Gas – Negotiated Transportation

Negotiated firm and interruptible gas transportation service (bypass customers) represents the provision of gas delivery service on behalf of end-use customers, third-party suppliers or marketers whereby NSPM transports gas owned by others over NSPM's gas pipeline system. Interruptible transportation gas service is subject to curtailment when either additional upstream pipeline or the local distribution capacity is needed to ensure service to firm customers. Costs associated with this service primarily include the facilities O&M and depreciation costs and A&G costs. These costs reside within the NSPM Gas Utility.

Gas – Interdepartmental

Interdepartmental gas service represents the provision of natural gas service or gas transportation service to NSPM company facilities at tariff rates. Costs associated with providing this service relate to the purchase and delivery of gas through NSPM owned facilities, primarily purchased gas, facilities O&M and depreciation costs, and A&G costs. These costs reside within the NSPM Gas Utility.

Gas – Limited Firm

Standby gas service represents on-system back-up propane service for interruptible service customers. Costs associated with this service primarily include propane purchases and the facilities O&M. These costs reside within the NSPM Gas Utility.

Gas – Daily Balancing Service

Daily balancing gas service represents a service to transportation customers that allows them to remedy deviations between nominated and delivered gas and gas consumed by the transportation customer. Costs associated with this service primarily include upstream pipeline costs. These costs reside within the NSPM Gas Utility.

OTHER GAS REVENUE

Miscellaneous Gas Revenue

Various services are provided that cannot be accounted for elsewhere such as propane transportation charges and bundled sales. These revenues are recorded in FERC account 495, Other Gas Revenues.

COMMON ELECTRIC AND GAS REVENUE

Late Payments Fees/Miscellaneous Service Revenues

Revenues from the additional charges imposed because of customers failure to pay their bill by specified due date are recorded into FERC account 450, Electric Forfeited Discounts; and FERC account 487, Gas Forfeited Discounts. Miscellaneous customer related revenue, such as service connections and returned check charges, are recorded in FERC account 451, Miscellaneous Electric Service Revenue; and FERC account 488, Miscellaneous Gas Service Revenues.

CIP Incentives

The CIP Incentive is a mechanism established by an April 7, 2000 Order of the Commission that provides utilities with an incentive to increase cost-effective utility investment in conservation improvement programs beyond the spending levels required by Minnesota Statute. The revenues associated with the CIP incentives are identified by unique accounts and are recorded in FERC account 456, Other Electric Revenues; and FERC 495, Other Gas Revenues. An adjustment is made to remove these revenues from our cost of service study and they do not impact our revenue requirements.

ConnectSmart

NSPM provides a service for customers moving into or across the region to set up utility service and other subscription services to their homes (e.g., newspaper, local and long-distance telephone, cable TV, etc.). NSPM, through its call center, receives telephone requests for this service, and sends these requests, for a fee, to AllConnect (a third-party contractor) for the coordination of installation of services. Costs related to this activity include direct charges for labor, materials and outside services associated with the service provided. In addition, payroll taxes, lost time, facilities, workers' compensation, incentive, pension, and benefit costs are allocated based on labor dollars, and labor-related overhead is applied to nonregulated business activities. The revenues and costs associated with this service are identified by unique accounts, and are recorded in FERC 417, Revenues from Nonutility Operations; and FERC 417.1, Expenses from Nonutility Operations. For rate making purposes, in the event this service experiences revenues in excess of direct expenses, an adjustment is made to credit the net impact in FERC 456, Other Electric Operating Revenues, to reflect the benefit of this service to the utility customers.

Hazardous Waste Disposal

NSPM has a Hazardous Waste consolidation facility at Chestnut Service Center in Minneapolis, Minnesota. The facility accepts and consolidates hazardous and specially-regulated waste materials from generating assets, service centers, substations, office buildings, and field operations projects in both NSPM and NSPW service territories. This facility ensures the wastes are properly characterized aggregated and consolidated at approved, permanent and appropriately licensed waste disposal facilities. This facility is also the central collection point for any PCB contaminated electrical equipment.

Empower Resiliency

Empower Resiliency is a program with the purpose of providing resiliency services to customers. At the Company's discretion, and except as otherwise provided in the tariff, these services may include any combination of battery energy storage systems and on-site generation assets. In addition, payroll taxes, lost time, facilities, workers' compensation, incentive, pension, and benefit costs are allocated based on labor dollars. The revenues and costs associated with this service are identified by unique accounts, and are recorded in FERC 451, Miscellaneous Service Revenues; FERC 910, Miscellaneous Customer Service and Informational Expenses; FERC 408.1, Taxes Other Than Income Taxes; FERC 925, Injuries and Damages; and FERC 926, Employees Pensions and Benefits.

NON-REGULATED BUSINESS ACTIVITIES

The following business activities have been approved by the Commission as non-regulated business activities. Detailed descriptions of each of the non-regulated business activities are provided in this section.

HomeServe Commissions

The terms of the HomeServe US Repair Management Corp. ("HomeServe") purchase of Xcel Energy's HomeSmart business in the fourth quarter of 2023 went into effect in March of 2024 (HomeSmart offered resources for the repair, replacement and maintenance of major appliances and systems in customers' homes. This includes service plans to cover certain appliances, sewer and plumbing issues; heating, ventilating and air conditioning (HVAC) systems; replacement assistance coverage; and preventive maintenance. HomeSmart also sells and installs HVAC systems and water heaters). Pursuant to the terms of the sale, HomeServe will pay Xcel Energy a percentage commission of new customer plan charges, as well as certain new plan charges, as part of a revenue sharing mechanism and HomeServe will pay Xcel Energy a fixed amount per each customer bill as part of a billing reimbursement plan due to Xcel Energy's continued billing support. Costs related to these activities include direct and indirect charges for labor associated with the services provided. In addition, payroll taxes, lost time, and pension and benefit costs are allocated based on labor dollars. The revenues and costs associated with HomeServe are identified by unique accounts and are recorded in FERC 417, Revenues from Nonutility Operations; and FERC 417.1, Expenses from Nonutility Operations.

Customer Owned Street Lighting Maintenance

NSPM supplies maintenance services for communities that own their own street light systems. Maintenance service for customer owned street light systems is limited to the fixture service only; and ranges from full fixture service to partial fixture service where the customer provides the material necessary to repair the streetlight. The customer is responsible for all other repairs and replacements under the "Non-regulated Customer Owned Street Maintenance" service. Costs related to this activity include labor and materials associated with the service provided. In addition, payroll taxes, lost time, and pension and benefit costs are allocated based on labor dollars, and a labor related overhead are applied to non-regulated business activities. The revenues and costs associated with this service are identified by unique accounts and are recorded in FERC 417, Revenues from Nonutility Operations; and FERC 417.1, Expenses from Nonutility Operations. See Docket E-002/M-92-614 for the Commission order to treat this service as non-regulated.

Sherco Steam Sales to Liberty Paper Inc.

NSPM supplies steam from the Sherburne County Generating Station to Liberty Paper, Inc. ("LPI") in order to meet LPI's thermal energy needs. Costs related to this activity include labor and materials associated with the service provided. In addition, payroll taxes, lost time, and pension and benefit costs are allocated based on labor dollars, and a labor-related overhead is applied to nonregulated business activities. The revenues and costs associated with this service are identified by unique accounts, and are recorded in FERC 417, Revenues from Nonutility Operations; and FERC 417.1, Expenses from Nonutility Operations which are excluded for ratemaking purposes. See Docket E002/M-19-663 in reference to Docket E002/M-93-1253 for the Commission order to treat this service as non-regulated. In addition to steam services, LPI takes electric and natural gas services from NSPM which are tariffed services provided at tariffed rates.

IV. TRANSACTIONS WITH AFFILIATES

OVERVIEW

NSPM directly incurs and pays for the majority of its costs, there are, however, services provided to NSPM by other affiliates within the Xcel Energy system of companies. In addition, NSPM provides a limited amount of operations, maintenance, and management advisory services to its affiliates. NSPM has numerous Affiliated Interest Agreements that have been approved by the Commission.

The sections below separately detail the nature and terms of transactions for services and asset transfers provided by NSPM to its affiliates, as well as services and asset transfers provided to NSPM by each of its affiliates. This section includes descriptions of affiliate transactions only and does not include convenience payments.

The cost allocation methodologies under which the Service Company costs are assigned and allocated are set forth in the service agreement, and while they are not the subject of this NSPM CAAM, they are included in this section to provide as complete a picture as possible of all affiliate transactions. The NSPM Service Agreement is reviewed and filed annually with the Commission. The last annual filing was submitted in Docket E,G002/AI-25-245 on May 30, 2025. NSPM's affiliate transactions consist primarily of transactions with the Service Company for administrative, management, accounting, legal, engineering, environmental, and other support services.

Terms of Transactions

Tariff Rate – the price charged to customers under applicable tariffs on file with federal or state regulatory commissions. Tariff rates are used for transactions with affiliates involving the provision of regulated services.

Fully Distributed Cost **–** the term fully distributed cost means that transactions billed include all direct and indirect costs, including overheads. Affiliate transactions billed by NSPM include labor related overheads and a working capital fee when appropriate. This method of assigning and allocating costs to these affiliate transactions ensures that the payments to or by NSPM are reasonable and have not resulted in any ratepayer subsidization. In the table below, fully distributed cost may also refer to a price established in a separate Affiliated Interest Agreement.

NSPM applies a labor related overhead to services provided by NSPM to affiliates and also applies a working capital fee on services NSPM provides to non-NSPM company affiliates. Both the labor related overhead and the working capital fees are discussed in Section VII.

The remainder of this section is detailed by affiliate. Affiliates may be listed under the "Services Provided by NSPM to Affiliates" section and/or the "Services Provided by Affiliates to NSPM" section. The details relating to the nature, frequency, and terms of the affiliate transactions are itemized for NSPM and each affiliate.

SERVICES PROVIDED BY NSPM TO AFFILIATES

Nature of Transactions	Terms
NSPW	
O&M – production, decommissioning, and transmission costs associated with the Interchange Agreement (FERC Docket No. ER15-1575-000).	Fully distributed cost
SCADA and Gas Dispatch – sharing of SCADA costs in accordance with Docket G-002/AI-94-831.	Fully distributed cost
Materials and Supplies – materials and supplies, including any associated freight, purchase loadings, and warehouse loadings.	Fully distributed cost
Miscellaneous – miscellaneous other charges, including labor, associated loadings, and lease costs.	Fully distributed cost
PSCo	
Materials and Supplies – materials and supplies, including any associated freight, purchase loadings, and warehouse loadings.	Fully distributed cost
Joint Operating Agreement – margin sharing associated with proprietary energy trading activities.	Fully distributed cost
Miscellaneous – miscellaneous other charges, including labor, associated loadings, and lease costs.	Fully distributed cost
SPS	
Materials and Supplies – materials and supplies, and any associated freight, purchase loadings, and warehouse loadings.	Fully distributed cost
Joint Operating Agreement – margin sharing associated with proprietary energy trading activities.	Fully distributed cost
Miscellaneous – miscellaneous other charges, including labor and associated loadings and lease costs.	Fully distributed cost

Xcel Energy Inc.

Nature of Transactions	Terms
Miscellaneous - miscellaneous other charges, including 401(k) match and a dividend on common stock.	Fully distributed cost

SERVICES PROVIDED BY AFFILIATES TO NSPM

Nature of Transactions	*Terms*
Xcel Energy Services Inc.	
*Executive Management Services** – represents charges for executive management services, including, but not limited to, officers of Xcel Energy.	Fully distributed cost
*Investor Relations** – provides communications to investors and the financial community. Coordinates the transfer agent and shareholder record keeping functions and plans the annual shareholder meeting.	Fully distributed cost
*Internal Audit & Risk** – reviews internal controls and procedures to ensure assets are safeguarded and transactions are properly authorized and recorded. Evaluates contract risks and trading risks.	Fully distributed cost
*Legal** – provides legal services related to labor and employment law, litigation, contracts, rates and regulation, environmental matters, real estate, and other legal matters.	Fully distributed cost
*Claims Services** – provides claims services related to casualty, public, and company claims.	Fully distributed cost
*Corporate Communications** – provides corporate communications, speech writing, and coordinates media services. Provides advertising and branding development for the companies within the Xcel Energy system. Manages and tracks all charitable contributions made on behalf of the Xcel Energy system.	Fully distributed cost
*Employee Communications** – develops and distributes communications to employees.	Fully distributed cost
*Corporate Strategy & Business Development** – facilitates development of corporate strategy and prepares strategic plans, monitors corporate performance, and evaluates	Fully distributed cost

business opportunities. Develops and facilitates process improvements.	
*Government Affairs** – monitors, reviews and researches government legislation.	Fully distributed cost
*Facilities & Real Estate** – operates and maintains office buildings and service centers. Procures real estate and administers real estate leases. Administers contracts to provide security, housekeeping and maintenance services for such facilities. Procures office furniture and equipment.	Fully distributed cost
*Facilities Administrative Services** – includes but is not limited to the functions of mail delivery, duplicating, and records management.	Fully distributed cost
*Supply Chain**– includes contract negotiations, development and management of supplier relationships and acquisition of goods and services. Also includes inventory planning and forecasting, ordering, accounting, and database management. Warehousing services includes receiving, storing, issuing, shipping, returns, and distribution of material and parts.	Fully distributed cost
*Supply Chain Special Programs** – develops and implements special programs utilized across Xcel Energy such as procurement cards, travel services, and compliance with corporate MWBE (minority women business expenditures) program goals.	Fully distributed cost
*Human Resources** – establishes and administers policies related to employment, compensation, and benefits. Maintains HR computer system, the tuition reimbursement plan, and diversity program. Coordinates the bargaining strategy and labor agreements with union employees. Provides technical and professional development training and general HR support services.	Fully distributed cost
*Finance & Treasury** – coordinates activities related to securities issuances, including maintaining relationships with financial institutions, cash management, investing activities, and monitoring the capital markets. Performs financial and economic analysis.	Fully distributed cost
*Accounting, Financial Reporting & Taxes** – maintains financial books and records. Prepares financial and statistical reports, tax filings, and ensures compliance with	Fully distributed cost

the applicable laws and regulations. Maintains the accounting systems. Coordinates the budgeting process.	
*Payment & Reporting** – processes payments to vendors and prepares statistical reports.	Fully distributed cost
*Receipts Processing** – processes payments received from customers of the operating companies and affiliates.	Fully distributed cost
*Payroll** – processes payroll including but not limited to time reporting, calculation of salaries and wages, payroll tax reporting, and compliance reports.	Fully distributed cost
*Rates & Regulation** – determines the operating companies' regulatory strategy, revenue requirements, and rates for retail and wholesale customers. Coordinates the regulatory compliance requirements and maintains relationships with the regulatory bodies.	Fully distributed cost
*Environmental Services & System Planning** – Responsible for long-term planning and integration for the generation, transmission, and distribution of electric and natural gas systems. Also, provides engineering services to the generation business. Establishes policies and procedures for compliance with environmental laws and regulations. Researches emerging environmental issues and monitors compliance with environmental requirements. Oversees environmental cleanup projects.	Fully distributed cost
*Energy Supply Business Resources** – provides performance, specialists, and analytical services to the operating companies generation facilities.	Fully distributed cost
*Energy Markets Regulated Trading & Marketing** – provides electric trading services to the operating companies electric generation systems including load management, system optimization, and resource acquisition.	Fully distributed cost
*Energy Markets-Fuel Procurement** – purchases fuel for operating companies' electric generation systems (excluding nuclear).	Fully distributed cost
*Energy Delivery Marketing** – develops new business opportunities and markets the products and services for the Delivery business unit.	Fully distributed cost

*Energy Delivery Construction, Operations & Maintenance** – constructs, maintains, and operates electric and gas delivery systems.	Fully distributed cost
*Energy Delivery Engineering/Design** – provides engineering and design services in support of capacity planning, construction, operations, and materials standards.	Fully distributed cost
*Marketing & Sales** – provides marketing and sales services for the operating companies and affiliates for their electric and natural gas customers including strategic planning, segment identification, business analysis, sales planning, and customer service.	Fully distributed cost
*Customer Service** – provides service activities to retail and wholesale customers. These services include meter reading, customer billing, call center, and credit and collections.	Fully distributed cost
*Aviation Services** – provides aviation and travel services to employees.	Fully distributed cost
*Fleet** – oversees the Utility subsidiaries Fleet Services business unit.	Fully distributed cost
*Business Systems & Innovation** – provides basic information technology services such as: application management, voice and data network operations and management, customer support services, problem management services, security administration, and systems management. In addition, Business Systems & Innovation acts as a single point of contact for delivery of all information technology services to Xcel Energy. Business Systems & Innovation partner with vendors to ensure the delivery of benchmarking, continuous improvement, and leadership around strategic initiatives and key developments in the marketplace.	Fully distributed cost
*Wildfire Mitigation** – Provides support for all Xcel Energy functions to help plan for and mitigate wildfire risk to ensure customer and Xcel Energy employee safety.	Fully distributed cost

** Corporate Governance activities within this service function will be allocated using the average of the revenue ratio with intercompany dividends assigned to Xcel Energy Inc., full time equivalent hours including overtime, and the total assets ratio including Xcel Energy Inc.'s per book assets.*

V. COST ASSIGNMENT AND ALLOCATION PROCESS

OVERVIEW

This section of the CAAM provides an overview of the cost assignment and allocation principles of NSPM and the accounting processes within the monthly accounting close and within the general ledger, including both system generated processes and manual processes, used to assign and allocate costs between the regulated services and the non-regulated business activities of NSPM. Each major step of the accounting process is identified in the following paragraphs and will be explained in conjunction with the process flowchart of this section. Each major step results in costs being either directly assigned or allocated to regulated services and non-regulated business activities. The result of applying these principles is that each company, utility, jurisdiction and non-regulated business activity pays the full cost for any service provided to support their respective operations.

Many of the assignment and allocation processes occur in the Service Company or are administered by Service Company personnel. As noted in the Introduction, the Service Company provides services "at cost" to the Utility subsidiaries and affiliate companies.

The processes discussed in this section are integral to the financial books and records of NSPM and are included to provide a comprehensive picture.

COST ASSIGNMENT AND ALLOCATION PRINCIPLES

NSPM applies the following cost assignment and allocation principles. The cost assignment and allocation approach is a fully distributed costing method as approved by the Commission in NSPM's electric and gas rates cases (E002/GR-92-1185, G002/GR-92-1186 and G002/GR-97-1606) and the Commission September 28, 1994 Order in Docket G, E-999/CI-90-1008.

The hierarchical cost assignment and allocation principles are:

I. Tariffed rate shall be used to value tariffed services provided.
II. Costs shall be directly assigned to either regulated or non-regulated business activities whenever possible.
III. Costs that cannot be directly assigned to either regulated or non-regulated activities or jurisdictions will be described as common costs. Common costs shall be grouped into homogeneous cost categories designed to facilitate the proper allocation of costs between regulated and non-regulated activities or jurisdictions in accordance with the following principles:
    a. Cost causation. All activities or jurisdictions that cause the cost to be incurred shall be allocated a portion of that cost. Direct assignment of a cost is preferred to the extent that the cost can be traced to the specific activity or jurisdiction.
    b. Variability. If the fully distributed cost study indicates a direct correlation exists between a change and the incurrence of a cost and cost causation, that cost shall be allocated based upon that relationship.
    c. Traceability. A cost may be allocated using a measure that has a logical or observable correlation to all the activities or jurisdictions that case the cost to be incurred.

d. Benefit. All activities or jurisdictions that benefit from a cost shall be allocated a portion of that cost.

IV. Residual. The residual of costs left after either direct or indirect assignment or allocation shall be allocated based upon an appropriate general allocator as defined in this CAAM.

V. Whenever neither direct or indirect measures of cost causation can be found, the cost category shall be allocated based upon a general allocator.

A significant portion of NSPM's costs are incurred directly by NSPM. These costs are directly assigned or allocated based on the above principles to utilities, jurisdictions, and to non-regulated business activities. Utility allocations are described in Section VII and jurisdictional allocations are described in Section IX.

ACCOUNTING PROCESSES

The flowchart in this section provides a high-level overview of the major steps in the monthly accounting close process and the systems used to generate the financial books and records of NSPM. Several steps within the process have allocations imbedded within and are included to provide as much information as possible to promote an understanding of where direct assignment or allocations can occur.

Feeder Systems (Addendum A, Flowchart Item 1)

The monthly close process initially starts with the collection of accounting information from feeder systems as identified in Item 1 on the flowchart. Feeder systems gather accounting transactions on a daily, weekly or monthly basis and 'feed,' or pass, those accounting transactions to the general ledger within SAP.

SAP General Ledger System Processing (Addendum A, Flowchart Item 2)

Journal entries to record monthly transactions such as interest accruals, amortizations, cash transactions, receivables setup, etc., are entered directly into SAP using the SAP journal entry input screens. These journal entries also include the journal entries to record overheads on non-regulated business activities (see Section VII).

Once all the transactions from the processes identified above are recorded in SAP, there are multiple processing steps within SAP, including settlements and assessments. These processes affect regulated services and non-regulated business activities and are detailed separately on the following pages.

Settlements and Assessments (Addendum A, Flowchart Item 3)

All costs identified as billable are processed using the settlement and/or assessment processes of the SAP system. These processes bill transactions from the legal entity that performed the service to the legal entity that received or is responsible for the service. This process captures:

- Service Company direct and allocated billings of all its costs to affiliated interests;
- Direct billings between a utility subsidiary and an affiliated interest other than the Service Company which are often referred to as intercompany charges or billings; and
- Direct billings between business areas within a legal entity.

For example, the settlements process will settle Service Company labor to the affiliated company if the labor is a direct charge or it will send the charges to an ACC if the charge is to be allocated. The assessment process will then clear the ACC by allocating the charges using an approved method of allocation to the legal entities to which the employee is providing services along with the appropriate labor and labor-related overheads. Transactions between affiliates (excluding XES) are direct charges, as are charges from one business area to another business area (for example, charges from the Distribution Operations business area to the Energy Supply business area). After the settlements and assessment processes are completed, all costs reside on the books of the legal entity ultimately responsible for the charge in the appropriate FERC account.

Business View (Addendum A Flowchart Item 4)

The business view of the SAP general ledger provides a GAAP view of the accounting transactions necessary to prepare SEC financial statements and other GAAP financial reports as well as the information necessary for the business areas to manage the business.

FERC Account Data Prior to Utility and Non-Regulated Allocations (Addendum A Flowchart Item 5)

At the same time that the business view is available, the pre-allocated FERC view of the SAP general ledger is available. The following utility allocations and non-regulated allocations are necessary for common costs to be allocated to the gas, electric, and non-regulated businesses.

Utility Allocations and Non-regulated Allocations (Addendum A, Flowchart Item 6)

NSPM's costs are directly assigned or allocated to electric, gas, or non-regulated business activities whenever possible. When charges can't be directly assigned, they are charged as common and then allocated to the electric and gas utilities using utility allocations. Common utility costs are grouped into two categories: (1) O&M utility allocations and (2) rate base and non-O&M utility allocations. These allocations are performed monthly within the SAP system and are described in Section VII.

In addition to the costs directly assigned to the non-regulated business activities from the Service Company and within NSPM, the non-regulated business activities are charged with a labor related overhead and an allocation of corporate costs. See Section VIII for additional information related to non-regulated business activities.

All costs that can be directly assigned or allocated to the electric or gas utility operations or to the non-regulated business activities are appropriately accounted for in the books and records of NSPM before jurisdictional allocations occur. A study is performed annually, and as required for rate case filing purposes, to identify all rate base and non-O&M costs that are common among the jurisdictions of NSPM (Minnesota, North Dakota, and South Dakota). These costs are then allocated among the jurisdictions according to the allocations described in Section IX.

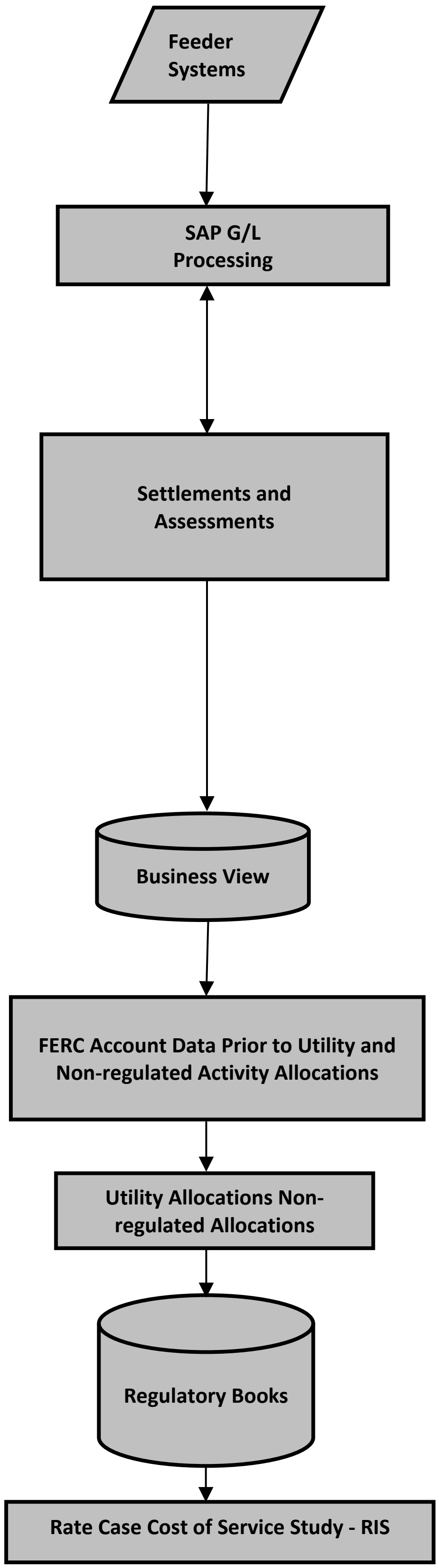
Regulatory Books and Records (Addendum A Flowchart Item 7)

After all the above processes are complete, the result is the FERC financial books and records of NSPM.

Rate Case Cost of Service Study (Addendum A Flowchart Item 8)

The FERC books and records are the starting point for the preparation of a cost of service study that will be used in a gas or electric rate case filing.

ADDENDUM A – PROCESS FLOWCHART



Item 1 – Feeder Systems
- **Labor Distribution**
- **Accounts Payable**
- **Money Pool**
- **Customer Billing**
- **Fixed Asset Ledger**
- **Employee Expenses**

Item 2 – SAP general ledger system processing

Item 3 – Settlements and Assessments
- **Labor Overheads**
- **Aviation Distribution**
- **Stores/Warehouse Overheads**
- **Purchasing Overheads**
- **Fleet Distribution**
- **Information Technology**
- **Shared Asset Distribution**
- **Facilities Distribution**
- **Engineering & Supervision**
- **Capital A&G**

Item 4 – Business View

Item 5 – FERC account data prior to Utility and Non-regulated activity allocations

Item 6 – Utility Allocations and Non-regulated allocations

Item 7 – Regulated books and records

Item 8 – Rate case cost of service study - Rate Information System ("RIS")

Feeder and Overhead System Detail

LABOR DISTRIBUTION

Description:	Wages and salaries of employees engaged in work on behalf of regulated services and non-regulated activities are assigned or allocated based on positive time reporting through the labor distribution system. Positive time reporting requires each employee to report the hours worked for each day using one-tenth of an hour or greater increments, while providing for aggregation of time when appropriate. Under this method, employees' time is reported on the basis of accounting codes related to specific operating utility companies or affiliates and/or functional services.
Provider of Service:	Service Company Operating companies or affiliates
User of Service:	Operating companies or affiliates, including utility operations, jurisdictions, and non-regulated activities within an operating company.
Method of Allocation:	All bi-weekly and semi-monthly employees' labor expenses are recorded by company personnel on time sheets and entered into the time reporting system, which feeds into the labor distribution system. The employee submitting the time sheet is responsible for coding the internal order numbers to charge the appropriate operating companies or affiliates, business function (e.g., capital, operations, maintenance, clearing, purchasing and/or warehousing, etc.) and regulated or non-regulated operations. Time must be completed and submitted for review and approval by certain cut-off dates established by the Payroll Department. The employee's supervisor or manager is responsible for reviewing and approving all time entries and verifying that the employee is using the correct accounting. The labor distribution system used for bi-weekly employees includes the distribution of actual paid and accrued labor dollars/hours to the internal order number charged based on the hours worked. Accrual of payroll is to facilitate the recording of labor costs on a calendar month basis. This includes any reversal of the prior month's accrual. The charge of labor dollars for semi-monthly employees to internal order numbers is based on a distribution of the monthly salary of the employee.

LABOR OVERHEADS

Description:	Employee labor overhead costs are captured in the following categories:

Benefit employees:

- Non-productive labor costs (vacation, sick, holiday, etc.)
- Pension and Insurance (401k match, retirement related consulting, active healthcare, life and LTD insurance premiums, miscellaneous benefit programs and LTD benefits for former or inactive employees before retirement, as well as the service cost portion of qualified pension, non-qualified pension and retiree healthcare)
- Benefits Non-Service (non-service cost portion of qualified pension, non-qualified pension and retiree healthcare)
- Workers compensation (FAS 112 actuarial cost and insurance premiums)
- Incentives (Incentives are a labor overhead for Service Company, PSCo, and SPS. Incentives for NSPM and NSPW are charged directly to FERC accounts 920 and 517).
- Payroll taxes (FICA, FUTA, SUTA)
- Labor and expense of the Human Resource Service Center

Non-Benefit employees:

- Payroll taxes (FICA, FUTA, SUTA)
- Workers compensation

Provider of Service: Service Company
Operating companies or affiliates

User of Service: Operating companies or affiliates, including utility operations, jurisdictions, and non-regulated activities within an operating company.

Method of Allocation: Labor overheads are allocated within a legal entity by calculating a separate loading rate for each cost category identified in the "Description" section above.

For each legal entity and each category, the costs are allocated based on a single-factor formula that is comprised of total estimated costs for the category divided by total estimated productive labor costs.

Legal entity specific rates for each category are applied to productive labor charges as appropriate for each resource type. Labor loadings applied to labor charges follow the labor charges. For example, Service Company labor overheads follow Service Company labor and NSPM labor overheads follow NSPM labor.

AVIATION DISTRIBUTION

Description: The Aviation Services department in the Service Company is responsible for managing and operating the two corporate leased aircraft used by the Xcel Energy. Costs include: pilot salaries including labor overheads, O&M costs, lease costs, and A&G costs associated with managing the Aviation Services department.

Provider of Service: Service Company

User of Service: Service Company, operating companies or affiliates, including utility operations, jurisdictions, and non-regulated activities within an operating company.

Method of Allocation: Aviation costs are allocated using the average of the Revenue Ratio with intercompany dividends assigned to Xcel Energy Inc., Full Time Equivalent Hours Including Overtime, and the Total Assets Ratio including Xcel Energy Inc.'s per book assets.

Any spousal use of the aircraft must be approved and is billed to Xcel Energy Inc.

STORES/WAREHOUSE OVERHEAD

Description:	Inventory warehousing costs, including labor, supervision, materials and supplies are allocated through pools to the business areas as an overhead on materials and supplies as materials and supplies are issued from/returned to a storeroom or warehouse.
Provider of Service:	Service Company Operating companies
User of Service:	Operating companies or affiliates, including utility operations, jurisdictions, and non-regulated activities within an operating company.
Method of Allocation:	The overhead costs for inventory items as noted above and associated adjustments are accumulated within the Supply Chain warehouse ACC's. These accumulated overhead costs are allocated to material issuances/returns from the storeroom. Costs are collected in ACC's on the Service Company and Operating Companies; then cleared using a warehouse overhead loading based on a costing sheet, cost element and AP document type criterion.

PURCHASING OVERHEAD

Description:	The Supply Chain organization in the Service Company has the responsibility for distributing the corporate purchasing and contract services costs to the functional area(s) of the operating companies or affiliates along with the cost of the materials and supplies ordered. Purchasing costs are made up of activities such as developing requisitions, contracts and purchase orders to procure materials and services and manage supplier relationships, negotiating complex procurement agreements/contracts for strategic supplier partnerships and service contracts, monitoring supplier performance, and managing purchase records, supplier qualification records, supplier diversity program, and support, maintenance, and performance monitoring of key applications and metrics used throughout the purchasing process. The Supply Chain organization is supported by specific Human Resources personnel who assist with supplier qualification processes as well as by the Enterprise Security department who manages the Security Vendor Risk Assessment process.
Provider of Service:	Service Company Operating companies
User of Service:	Service Company, operating companies and affiliates, including utility operations, jurisdictions, and non-regulated business activities within an operating company.
Method of Allocation:	Costs are collected in ACC's on the Service Company and the operating companies and cleared using an overhead loading based on costing sheet, cost element, and AP document type criterion.

FLEET DISTRIBUTION

Description:

The Fleet Services department in the Service Company is responsible for managing the fleet assets owned by the operating companies. Fleet assets are vehicle units that are organized into fleet work centers, which group together vehicles similar in nature for a specific business function within an Operating Company.

The SAP Work Manager records the utilization of our fleet assets and allocates the cost to the business areas of operating companies and affiliates for the costs of using vehicles or associated equipment using fleet activity rates based on work centers.

Fleet costs included in the calculation of the monthly billing rate include: licensing taxes and fees, lease costs, material and labor costs for maintenance and repair, fuel, labor loadings, and overhead for overall management of the Fleet Services department that includes labor, facilities, insurance, utilities, computers, phones, and office supplies.

Provider of Service:

Service Company
Operating companies

User of Service:

Service Company, operating companies or affiliates, including utility operations, jurisdictions and non-regulated business activities within an operating company.

Method of Allocation:

Costs are collected in ACC's on the Service Company and operating companies which are cleared using an overhead fleet rate based on the weighted vehicle type to the respective business area.

INFORMATION TECHNOLOGY

Description:	The Technology Services organization in the Service Company is responsible for managing the corporate IT assets and services of Xcel Energy. Technology Services bills out O&M and capital costs related to Xcel Energy's corporate IT equipment and services incurred internally, as well as costs incurred through third party vendors. Costs include system O&M, desktop services, phone service, servers, infrastructure costs, software, software licensing, system design and implementation, labor and labor overheads, etc.
Provider of Service:	Service Company
User of Service:	Service Company, operating companies, or affiliates, including utility operations, jurisdictions and non-regulated activities within an operating company.
Method of Allocation:	IT costs are charged through several different methods. Costs are charged directly to the operating companies, affiliates, jurisdictions or non-regulated activities on the invoice, timesheet, expense report or other source document to the company(ies) benefiting from the service whenever possible. If costs cannot be charged directly to an operating company, affiliate, jurisdiction or non-regulated activity, the costs are charged to the appropriate Service Company indirect ACC that will assign the costs using a cost causative method to the companies benefiting from the system, application, or service. For costs that can be identified as benefiting a particular service function, those services would be charged to a Service Company indirect ACC using the approved allocation factor for that business area. If an indirect ACC cannot be identified that would assign costs in a cost causative method, a new indirect ACC will be created. However, if the project will be in-serviced within one year and if O&M costs will be less than $250,000 in total for the project, an internal order will be used to assign costs using a cost causative method to the companies benefiting from the system, application, or service.

ACCOUNTS PAYABLE

Description:

The Payment and Reporting Department (Accounts Payable), in the Service Company, processes several types of documents for payment on behalf of the operating companies and affiliates. Accounts Payable uses SAP to process invoice payments associated with purchase orders, contracts, requests for payment (non-purchase orders, non-contract invoices) and employee payments, including per diem charges, suggestion system award payments and employee expense reimbursements.

The charges for goods, materials and services, which post directly to the general ledger of each operating company and affiliate, differ for each type of document.

Provider of Service:

Service Company

User of Service:

Service Company, operating companies and affiliates, including utility operations, jurisdictions, and non-regulated activities within an operating company.

Method of Allocation:

Within each operating company and affiliate, charges are directly assigned whenever possible. Charges may be distributed to multiple business functions or business areas based on the accounting code(s) on each document. If necessary, costs may be allocated using any surrogate measure that has a logical or observable correlation to the charges in the quantities sold, the services that caused the cost to be incurred or that benefited from the cost. The following are examples of some of the logical or observable correlations used to allocate costs contained on Accounts Payable documents:

- Quantity (units, count, etc.)
- Measurement or size (length, space, columnar inch, etc.)
- Volume (barrels, gallons, liters, etc.)
- Weight (ounce, pound, ton, etc.)
- Hours (hours of professional or contract services)
- Labor dollars (charge is in the same proportion as the labor hours of the department)
- Number of customers, meters, employees, etc.
- Revenue dollars
- Plant in service
- Square footage

SHARED ASSETS DISTRIBUTION

Description:	Shared assets are defined as capitalized assets that are owned by one legal entity but are used for the benefit of multiple entities. This would include land structures and improvements, office furniture and equipment, computer and communication equipment, and some software systems that are used by employees in the performance of their jobs.
Provider of Service:	Operating companies or affiliates
User of Service:	Service Company, operating companies and affiliates
Method of Allocation:	All allocations are billed through the Service Company and charged to a Service Company internal order that will assign the costs using a cost causative method to the companies benefiting shared assets. For IT related assets, the costs will be charged to the system application or service internal order. For facility assets, the costs will be charged to the respective Service Company facilities ACC that will assign the costs following employee labor.

FACILITIES DISTRIBUTION

Description:	Facilities costs are assigned or allocated to the functional areas of operating companies and other affiliates who benefit from the use of the facilities. Depending on whether a building is used by one utility company or is a "shared" building, i.e., building used by employees of more than one operating company or affiliate, facility costs may include: Single-utility facility: The administrative property services labor and non-labor costs, utility expenses, maintenance costs for structures and systems, pro-rated share of property taxes (for owned buildings), and the rent and occupancy expenses (for leased buildings). Shared facility: Administrative property services labor and non-labor costs, utilities expenses, and the maintenance costs for structures and systems are captured. If the building is leased, the rent is included. If the building is owned, the carrying costs of the shared assets, such as the depreciation and a return on rate base, are included in the facilities' cost. The Property Services department is responsible for the owned and leased facility.
Provider of Service:	Service Company or operating companies
User of Service:	Service Company, operating companies, and affiliates
Method of Allocation:	Costs for a single-utility facility are accumulated in the ACC of the company benefitting from the use of the building and are then allocated to functional FERC accounts based on the most recent quarter's labor charges. Costs related to a shared facility, i.e., buildings used by employees of more than one operating company or affiliate, are first accumulated in ACC's specific to the shared facility and then distributed to each operating company and affiliate based upon the most recent quarter's labor for the specific employees located in each facility. Once costs are assigned to the appropriate company, they are then allocated to the functional FERC accounts based on the most recent quarter's labor charges.

MONEY POOL

Description:	Through the Utility Money Pool (“UMP”), temporary surplus funds of Xcel Energy are available for short-term loans to other operating companies with cash needs.
Provider of Service:	Service Company
User of Service:	Operating companies
Method of Allocation:	An operating company can borrow from, and make loans to, the UMP, which is administered at cost by the Service Company. In addition, Xcel Energy Inc., the Holding Company, can deposit surplus funds into the UMP but cannot borrow from the UMP. Interest income or expense is charged or credited, as appropriate, to the UMP participants. All charges are directly billed from the Service Company to the appropriate operating company. NSPM petitioned for and received approval on the use of a UMP in Docket No. AI-04-100.

INCOME TAX EXPENSE DISTRIBUTION

Description:	Income tax expense incurred by the Service Company.
Provider of Service:	Service Company
User of Service:	Service Company and all entities included in the Accounting, Reporting, & Tax – Corporate Governance allocator.
Method of Allocation:	Income tax expense incurred by the Service Company is allocated to all entities included in the Accounting, Reporting, & Tax – Corporate Governance allocator.

CUSTOMER BILLING

Description:	NSPM bills customers for electric, gas, propane, and miscellaneous non-regulated activities through the customer billing system.
Provider of Service:	Operating companies
User of Service:	Operating companies, including utility operations, jurisdictions, and non-regulated activities.
Method of Allocation:	Costs related to customer billing are direct charged to specific operating companies whenever possible. When costs cannot be directly assigned to a specific operating company, they are allocated based on the number of customers. Non-regulated activities that use the customer billing system are allocated a customer accounting overhead based on revenue dollars. See Section VII.

ENGINEERING AND SUPERVISION ("E&S") OVERHEAD

Description: E&S costs are capitalized as construction overheads. E&S overheads are applied where it is not practical to direct charge the pay and expense of the engineers, surveyors, draftsmen, inspectors, first line management, and their assistants to construction. NSPM uses the E&S overhead allocation to charge these expenses to capital projects.

Provider of Service: Operating companies and Service Company

User of Service: Operating companies.

Method of Allocation: Costs related to E&S are gathered in an ACC separately by functional class and utility (production, transmission, and distribution). The ACC's are fully allocated on a monthly basis to clear the balances to zero. These costs are sent to the fixed asset ledger and then are allocated to each eligible capital internal order based on current month charges and the calculated rate.

The fixed asset ledger tracks all capital projects and work order expenditures for Xcel Energy on a life-to-date basis. Once expenditures are recorded on the books of the appropriate legal entity, the fixed asset ledger system generates the overhead allocations, and if appropriate, AFUDC, which are then applied to the individual internal orders. In addition, the fixed asset ledger calculates monthly depreciation by legal entity and handles the transfer of work orders from FERC account 107, Construction Work in Progress; to FERC account 106, Completed Construction-Not Unitized; to FERC account 101, Utility Plant in Service. The transfer of non-utility costs is within FERC account 121, Non-Utility Property using sub accounts.

CAPITAL A&G

Description:	A&G costs are capitalized as construction overheads. The overhead relates to all the personnel in the administrative office that work on construction to assure its continued operation but are not direct to any one project. A prime example is the payroll analyst whose responsibility it is to assure the construction labor receives its payroll checks. Because it is inefficient for these employees to direct charge all the work orders an overhead process is used to facilitate charging the capital work orders.
Provider of Service:	Operating companies and Service Company
User of Service:	Operating companies.
Method of Allocation:	Each operating company performs an A&G study every other year to review the time employees in certain administrative departments spend on capital work. A percent of payroll for these employees, based on the A&G study results is charged to an overhead allocating cost center, one-twelfth each month. The overhead cost center is allocated to each work order based on current month charges.

VI. UTILITY ALLOCATIONS

OVERVIEW

NSPM's costs are directly assigned or allocated to electric, gas, or non-regulated activities whenever possible or charged as common and then allocated to the electric and gas utilities using utility allocations. Common utility costs are grouped into two categories: (1) O&M utility allocations and (2) rate base and non-O&M utility allocations. The O&M utility allocations are processed monthly within SAP and are explained below. The common rate base and non-O&M utility allocations are completed as part of an annual study and for rate case filing purposes which are explained below.

O&M UTILITY ALLOCATIONS

Introduction

Common O&M utility allocations are applied to common costs that are recorded in A&G (FERC accounts 920-935.3), customer accounting, and customer information and sales (FERC accounts 901-916). Table A in this section lists the NSPM allocation methodology applied to each FERC account or range of FERC accounts.

Methodology

NSPM uses the following methods to allocate common O&M costs. These methods were developed to achieve the most cost causative relationship that each FERC account or range of FERC accounts has with electric and gas utility operations. The allocators used are as follows:

Customer Allocator

The customer allocator is used to allocate common utility costs in FERC accounts 901-903, and the non-commodity bad debt portion of FERC 904 and 905-916 among electric and gas operations. The allocation is based on the customer bill counts for the electric and gas utilities. The allocator used in the current year is developed based on the previous years' actual customer bill count.

Revenue Allocator

The revenue allocator is used to allocate common utility costs for commodity bad debt, recorded in FERC account 904, among electric and gas operations. The allocation is based on a rolling four-year average of actual electric and gas revenues. The allocator in the current year is developed based on the four previous years' actual operating revenues from the corporate income statement.

Three-Factor Allocator

The three-factor allocator is used to allocate common utility costs in FERC account ranges 920-924 and 928-935.3 among electric and gas utilities. The allocation is based on the weighted average of operating revenue, plant in service, and supervised O&M. The allocator used in the current year is developed based on the previous years' actual operating revenue, plant in service and supervised O&M.

Labor Allocator

The labor allocator is used to allocate common utility costs in FERC accounts 925-926 to the electric and gas departments. The allocation is based on operating labor for the electric and gas utilities. The allocator used in the current year is developed based on the previous years' actual operating labor.

RATE BASE AND NON-O&M UTILITY ALLOCATIONS

Introduction

A study is performed annually, and for rate case filing purposes, to identify all rate base and non-O&M costs that are common among the utility operations of NSPM in order to allocate them to the electric and gas utilities.

Methodology

NSPM uses the following methodology to allocate common rate base and non-O&M costs. These allocation factors were developed to achieve the most cost causative methodology based on the pool of costs being allocated. Table B in this section lists the methodology applied to specific pools of costs. The allocators used are as follows:

Three-Factor Allocator

The allocation is based on the weighted average of operating revenue, plant in service, and supervised O&M. The allocator used in the current year is developed based on the previous years' actual operating revenue, plant in service and supervised O&M.

Computer Software Study

A composite allocator is used to allocate common computer software rate base (plant) and non-O&M (plant related) costs among electric and gas utilities. Software assets and related costs are presented in a cost of service study using a single amount. A study of all computer software is done to determine how each individual software asset that is part of the single amount should be allocated. All individual allocations are summarized to create a single composite allocation that is then applied to the summarized computer software plant and plant related costs.

Transportation Study

Individual allocators are used to allocate common transportation rate base (plant) and non-O&M (plant related) costs among electric and gas utilities. Transportation assets are reviewed to determine where vehicles are used and allocation factors are developed.

Table A – O&M Utility Allocations

FERC Account	Allocation Method	Basis for Allocation Selection
901-916 (excluding commodity bad debt in FERC 904)	Customer Allocator	Customer bill counts are a reasonable methodology to use to allocate common customer accounting and customer information and sales costs recorded in FERC accounts 901-916 because these costs are customer related costs, e.g., credit and collection, customer accounting, bad debt, etc.
904 (commodity bad debt portion)	Revenue Allocator	A revenue allocator is a reasonable methodology to allocate commodity bad debt because these costs have a cost-causative relationship to uncollectible utility revenues.
920-924	Three-factor Allocator	A three-factor allocation is reasonable because there is no single allocator that could provide a cost-causative link. A three-factor allocator that measures three distinct aspects of the Company and results in an overall fair assignment of costs to the electric and gas utilities is used and is based on equally weighting operating revenue, plant in service and supervised O&M.
925-926	Labor Allocator	A labor allocation is reasonable because the costs recorded in these accounts are injuries and damages and pension and benefit costs. These costs have a cost-causative relationship with labor.
928-935.3	Three-factor Allocator	A three-factor allocation is reasonable because there is no single allocator that could provide a cost causative link. A three-factor allocator that measures three distinct aspects of the Company and results in an overall fair assignment of costs to the electric and gas utilities is used and is based on equally weighting operating revenue, plant in service and supervised O&M.

Table B – Rate Base and Non-O&M Utility Allocations

Utility	Functional Class	Pool of Costs	Allocation Methodology
Electric			Direct Assignment
Gas			Direct Assignment
Common	26/Common Intangible Plant	Computer Software	Computer Software Study
Common	31/Common General Plant	General Furniture & Equipment	Three-Factor Allocation
Common	31/Common General Plant	Electric Distribution – Mass – MN	Direct Assignment to Electric
Common	31/Common General Plant	Electric Distribution – ND	Direct Assignment to Electric
Common	31/Common General Plant	Electric Distribution – MN	Direct Assignment to Electric
Common	31/Common General Plant	Electric Distribution Vaults	Direct Assignment to Electric
Common	31/Common General Plant	Allen S King Plant	Direct Assignment to Electric
Common	31/Common General Plant	Electric Transmission Line – MN	Direct Assignment to Electric
Common	31/Common General Plant	Electric Transmission Substation – MN	Direct Assignment to Electric
Common	31/Common General Plant	Gas Distribution – MN	Direct Assignment to Gas
Common	31/Common General Plant	General Tools and Other Equipment	Three-Factor Allocation
Common	31/Common General Plant	Office, Service & Other Bldgs – MN	Three-Factor Allocation
Common	31/Common General Plant	Office, Service & Other Bldgs – ND	Three-Factor Allocation
Common	31/Common General Plant	Office, Service & Other Bldgs – SD	Three-Factor Allocation
Common	31/Common General Plant	Software – Minnesota	Three-Factor Allocation
Common	31/Common General Plant	Transportation Equipment – MN	Transportation Study
Common	31/Common General Plant	Transportation Equipment – MN	Transportation Study
Common	31/Common General Plant	Transportation Equipment – SD	Transportation Study
Common	31/Common General Plant	Prairie Island	Direct Assignment to Electric
Common	31/Common General Plant	Inver Hills – Prod Other	Direct Assignment to Electric
Common	31/Common General Plant	Big Oaks Rec Area	Three-Factor Allocation
Common	31/Common General Plant	Black Dog	Direct Assignment to Electric
Common	31/Common General Plant	High Bridge	Direct Assignment to Electric
Common	31/Common General Plant	Riverside	Direct Assignment to Electric
Common	31/Common General Plant	Sherco	Direct Assignment to Electric
Common	31/Common General Plant	Gas Prod – Wescott – MN	Direct Assignment to Gas
Common	31/Common General Plant	General Tools and Other Equipment	Three-Factor Allocation
Common	31/Common General Plant	General Plant – MN	Three-Factor Allocation
Common	31/Common General Plant	General Plant – SD	Three-Factor Allocation
Common	31/Common General Plant	General Plant – ND	Three-Factor Allocation

VII. NON-REGULATED ACTIVITY ALLOCATIONS

INTRODUCTION

The purpose of this section is to detail the methods of assigning and allocating costs between the regulated services and the non-regulated activities of NSPM.

NSPM follows the same approach for all types of costs for its fully distributed costing method. As discussed earlier in the CAAM, NSPM's method was approved by the Commission in its electric and gas rate cases (E002-GR-92-1185, G002-GR-92-1186 and G002/GR-97-1606) and the Commission's September 28, 1994 Order in Docket No. G,E-999/CI-90-1008.

The Commission established the following hierarchical cost assignment and allocation principles in Docket No. G,E-999/CI-90- 1008:

1. Tariffed rate shall be used to value tariffed services provided to non-regulated activities.
2. Costs shall be directly assigned to either regulated or non-regulated activities whenever possible.
3. Costs that cannot be directly assigned are common costs, which shall be grouped into homogenous cost categories. Each cost category shall be allocated based on direct analysis of the origin of the costs whenever possible. If direct analysis is not possible, common costs shall be allocated based upon an indirect cost causation.
4. Whenever neither direct or indirect measures of cost causation can be found, the cost category shall be allocated based upon a general allocator.

This process accomplishes the proper separation of costs between NSPM's regulated utility business and non-regulated activities. Each activity that could be considered as being outside of NSPM's electric and gas business is reviewed for regulated/non-regulated treatment. If the activity is approved to be treated as a non-regulated operation, the non-regulated cost allocation process is followed.

There are limited situations where an activity that would be in the public interest could not be pursued if a fully distributed costing approach was followed. In such circumstances, NSPM has filed, and will continue to file, any deviation from a fully distributed costing process on a project-specific basis. Any existing exceptions have been filed and approved by the Commission.

Evaluation Process

NSPM's approach to fully distributed costing includes the following steps of analysis: business profile, direct charging, labor overheads, cost causation allocation, labor related overhead, customer accounting overhead, and corporate residual allocation. Non-NSPM affiliates are charged a working capital fee as discussed in Section IV.

Business Profile

The allocation process begins by reviewing each non-regulated activity for the services NSPM's utility business will be providing to the non-regulated activity.

Direct Charging (Addresses Principle #2)

Cross charges between NSPM service providers and non-regulated activities are reviewed with the business. Any process, project, or service performed for the direct benefit of a non-regulated activity is directly charged to the non-regulated activity. The business area providing service to the non-regulated activity communicates the anticipated level of service and how much the service will cost.

Labor charges are directly assigned to the non-regulated activity within the budgeting process, generally based on historical charges and taking into consideration known changes. The non-labor charges are directly charged. This process enables charging for all service that will be provided.

Cost Causation Allocations (Addresses Principle #3)

If no direct charge has been established for a service expected to be provided, a cost causation allocation is developed. Direct charging is preferred. However, if a service is expected to be provided and was not budgeted as a direct charge, an estimate of the cost of the service is made and allocated to the non-regulated business. An example of this would be, when a service is being provided, but it is at such a minimal level that it would be very difficult or cost prohibitive to charge on a direct basis.

Overhead Costs (Addresses Principle #4)

The overhead allocation factors capture indirect costs associated with providing services to non-regulated activities.

Non-regulated services wholly contained within NSPM and affiliate or third-party transactions are allocated a portion of NSPM's administrative and general (A&G) costs. A&G costs are allocated to non-regulated activities on the basis of labor of each non-regulated activity. The Company utilizes labor dollars for regulated activities and non- regulated activities to allocate the A&G costs, recorded in FERC accounts 920-935.3, to the non-regulated activities. The labor overhead is applied to unloaded labor.

Most non-regulated activities are also allocated a portion of NSPM's common Customer Accounting Costs. The distinction here is whether the non-regulated activity uses the customer accounting services of NSPM. For those activities that do use these services, common Customer Accounting Costs are allocated on the basis of revenues earned by each non-regulated activity. The Company utilizes revenue dollars for regulated activities and non-regulated activities to allocate the common portion of Customer Accounting Costs, recorded in FERC accounts 901-916, to the non-regulated activities. Excluded from the Common Costs in FERC accounts 901-916 are: FERC account 902, Meter Reading Expenses; FERC account 904, Uncollectible Accounts; and CIP costs in FERC account 908, Customer Assistance Expenses. These costs have been excluded because they are not pertinent to NSPM's non-regulated activities, as the non-regulated activities account for their own bad debt expenses separately.

Working Capital Fee (Addresses Principle #3)

The working capital fee is applied to non-NSPM affiliates. The fee is based on the current Prime Rate and is reviewed and updated quarterly. This fee is to compensate the regulated business for the cost of working capital used by affiliates.

VIII. JURISDICTIONAL ALLOCATIONS

INTRODUCTION

NSPM's methods for assigning and allocating common O&M costs, plant and plant related, and other rate base investment to jurisdictions is intended to distribute costs in a manner that most closely reflects the benefit received from the expenditure. Accurately stating the assigned and allocated costs of the Company, as they relate to causation of the costs, is a fundamental part of creating a fair distribution of those costs to jurisdiction.

NSPM uses three methods to assign and allocate O&M expense, plant and plant related, and other rate base investment to jurisdiction:

1. direct assignment based on FERC account and location,
2. allocate based on cost causation, and
3. allocate based on a default allocator.

Determination of the assignment and allocation of costs to jurisdiction is an annual process designed to identify the jurisdiction(s) that receive the benefit from the cost or investment. During the review, the three methods stated above are used to ensure that the appropriate jurisdiction(s) is assigned or allocated the cost. It is NSPM's primary goal to direct assign or allocate based on cost causation as often as possible, and allocate based on a default as little as possible.

The first step in assigning costs and investments to a jurisdiction is to identify all costs that can be directly assigned to a jurisdiction (Minnesota, North Dakota or South Dakota), based on the location where work is being performed. For O&M expense, the SAP general ledger account has a location indicator (Profit Center) and a FERC account number associated with it and these are used to determine the appropriate jurisdiction(s) for assigning costs. The individual business areas determine and maintain the appropriate values for these codes based on the type of work being performed and which customers benefit from it. For plant investment data, the PowerPlan system's functional class ID, state code and the function that it is serving are used to determine the appropriate jurisdictions to assign costs for plant, plant related and other rate base costs.

Direct Assignment Based on FERC Account and Location

The first method NSPM uses is to direct assign costs whenever possible. For example, the distribution portion of an electric substation (that which is assigned to a distribution FERC account function) and is located in the Twin Cities metro area can be directly assigned to the Minnesota jurisdiction based on location as it directly serves only customers in Minnesota. In addition, all gas transmission and distribution property are directly assigned to the jurisdiction based on where the property is located as defined within the PowerPlan system. The Capital Asset Accounting organization maintains the capitalized property data.

An O&M example of direct assignment (expense) would be either electric or gas special meter reading done in the Twin Cities metro area (assigned to a distribution FERC account). The meters read are for customers in the State of Minnesota; therefore, the related costs are directly assigned to the Minnesota jurisdiction.

All regulatory expenses specific to a jurisdiction are directly assigned to that jurisdiction. For example, indirect assessments charged to NSPM, from the Minnesota Department of Commerce and the Commission, are directly assigned to the Minnesota jurisdiction.

Allocation Based on Cost Causal Relationship

The second method NSPM uses identifies all investments and costs that can be assigned to jurisdiction based on a causal relationship, and allocates these costs using the most cost causal allocation method. Examples of electric and gas analyses are as follows:

Electric

NSPM operates an integrated electric transmission system that transports electricity to NSPM's distribution system that in turn, supplies electricity to all of NSPM's customers. The transmission system is built to meet the demand created by serving its customers and, therefore, NSPM uses a coincident peak transmission demand taken from twelve consecutive months that constitute a calendar year method, to allocate transmission investment to all of its jurisdictions. All of the expense and plant investment, assigned to transmission function, exists to support NSPM's infrastructure, is fixed in nature and is assigned to jurisdiction based on transmission demand.

The cost causation allocators used for electric production expense or plant investment is a twelve-month coincident peak demand or energy, depending on the type of expense or plant investment. If the expense is variable in nature, energy is used to make the assignment to jurisdiction. If it is determined that the expense or plant investment exists to support NSPM's infrastructure and is fixed in nature, the demand allocator is used to make the assignment to jurisdiction.

Gas

From a supply standpoint, for example, NSPM operates its gas distribution system as a single unit. NSPM purchases natural gas, pipeline delivery capacity, and transmission of gas purchased to meet its customers' requirements on a system-wide basis. In addition, NSPM also operates propane-air (LPG) peak shaving facilities and liquefied natural gas (LNG) peaking facilities to meet firm demand in excess of natural gas daily pipeline entitlement for the benefit of the entire NSPM system. Because these types of costs support the entire operating company system, it is not possible to direct assign them to a specific jurisdiction. For this example, the O&M production and storage functions are allocated to jurisdiction based on the type of expense within the FERC account number. The transmission function is allocated based on the gas load dispatch allocator that is a combination of the design day firm demand allocator and total annual throughput. For plant investment, all production and storage facilities are allocated based on the gas design day allocator related to the design day firm demand.

Electric & Gas

Cost and investment in support of NSPM's distribution, customer accounting, and customer information & sales are more easily identified by state based on the location or where the work is being performed, or they can be allocated to jurisdiction using customers as a basis. In cases where services are provided and serve all regional customers, a regional allocator is developed which reflects the number of customers served in Minnesota and North Dakota or Minnesota and South Dakota, depending on the region. This represents a causal relationship between costs incurred in those regions and the assignment of costs to jurisdiction. Locating services performed in the Fargo area is an example of these types of costs. Locating services are performed for customers on both sides of the Minnesota/North Dakota border and are, therefore allocated to jurisdiction based on the number of year-end average customers in the North Dakota Region, which includes Fargo, Moorhead, Grand Forks, East Grand Forks and Minot.

Allocation Based on a Default Allocator

Allocation of common and general investment or A&G expense: costs and investment that cannot be assigned to jurisdiction using either direct assignment or allocation based on cost causation as described above are allocated to jurisdiction using a default allocator.

Common and General Plant Investment

The default allocator for electric plant investment is determined by the function that it serves. Common and general plant that serves production uses a twelve-month coincident peak demand allocator to allocate costs to jurisdiction. Plant serving transmission uses a twelve-month coincident peak transmission demand allocator to allocate costs to jurisdiction. For plant serving distribution, the number of year-end average customers is used to allocate costs to jurisdiction.

For Gas plant a default allocator is also determined by the function that it serves. For general and common plant, a year-end average customer allocator is used as the default. If the investment function has been determined to be gas production related, then the default jurisdictional allocator used in the production allocator is gas design day.

Administrative and General Expenses

When assigning or allocating A&G expenses to jurisdiction, a cost causative allocator is used if a functional relationship is easily established. In other instances, Electric A&G costs are allocated to jurisdiction using an equally weighted two-factor allocator based on electric plant in service and electric O&M expense (excluding A&G). The two factor allocator is developed by first calculating a three part historical ratio of plant investment directly serving production, transmission or distribution and a three part historical ratio of O&M expenses assigned to FERC accounts that are either production, transmission or directly serve customers (distribution, customer accounting, customer information or sales). These two ratios are then averaged to develop an equally weighted production, transmission and distribution ratio. This resulting three part ratio is then multiplied times the jurisdictional O&M default allocation ratios. The electric production portion is allocated to jurisdiction using a twelve-month coincident peak demand allocator; the transmission portion using the transmission demand allocator; and the customer portion is allocated using twelve-month end-of-year customers. The final step is to add the three sets of jurisdictional ratios together to form the two factor jurisdictional allocator used to allocate electric A&G costs supporting corporate functions.

Gas A&G expenses are allocated to jurisdiction using the appropriate customer allocation as a default allocator, based on the SAP account location indicator (profit center).

A more detailed description of each allocation type and method of allocation, including examples of why the allocation was chosen to assign costs to jurisdiction is included below.
Table C in this section lists the methodology applied to specific pools of costs.

ALLOCATION METHODS

GAS & ELECTRIC

Allocation: Direct Assigned

This allocation type is used to assign all expenses that are determined to be directly assignable to a jurisdiction (Minnesota, North Dakota, and South Dakota).

Allocation: Direct Assigned: State of Minnesota

This allocation type is used for all expenses that are determined to be for the direct benefit or in direct support of the Minnesota jurisdiction. The types of costs direct assigned include: direct and indirect assessments related to one of Minnesota's regulatory bodies, legal department expense budgeted in support of Minnesota, economic development activities in the state of Minnesota, facilities expenses in support of the distribution business unit in the state of Minnesota, delivery system operation and maintenance costs in the Twin Cities metro area, Northwest and Southeast regions and automated energy system (AES) expenses.

Allocation: Direct Assigned: State of North Dakota

This allocation type is used for all expenses that are determined to be for the direct benefit or in direct support of the state of North Dakota jurisdiction. The types of costs direct assigned include: regulatory development activities based out of the North Dakota regional offices, direct and indirect assessments related to the North Dakota regulatory bodies, legal department expenses budgeted in support of North Dakota, economic development activities performed directly for North Dakota and work performed in the Minot area for the sole benefit of North Dakota customers.

Allocation: Direct Assigned: State of South Dakota

This allocation type is used for all expenses that are determined to be for the direct benefit or in direct support of the state of South Dakota jurisdiction. The types of costs direct assigned include: direct and indirect assessments related to the South Dakota regulatory bodies, legal department expenses budgeted in support of South Dakota, economic development activities performed directly for South Dakota.

Allocation: Customers - Year-End Average - (Electric or Gas)

This allocation type is used to assign expenses where there is a cost causative relationship between the number of electric and gas utility NSP customers in a particular area and the service provided. This allocator is based on year-end average customer by utility.

Allocation: Customers Year-End Average Minnesota Co. MN/ND/SD

This allocation type is used to assign costs to all of Minnesota Company's jurisdictions (Minnesota, North Dakota, and South Dakota) when the work performed benefits all of the company's customers equally. This is the default allocator that is used for the electric and gas distribution, customer accounting, customer information, sales, and A& G FERC accounts.

This is also the gas utility A&G corporate function default allocator type.

Allocation: Customers Year End Average Minnesota/North Dakota

This allocation type is used to assign costs to both the North Dakota and Minnesota jurisdictions based on customers in the entire North Dakota region. This includes customers in Fargo, Moorhead, Grand Forks, East Grand Forks and Minot service areas. This method is the default allocator for O&M expenses associated with general ledger accounts where the SAP profit center designates support for Minnesota/North Dakota.

Allocation: Customers Year End Average Minnesota/South Dakota

This allocation type is used to assign costs to both the South Dakota and Minnesota jurisdictions based on customers in the entire South Dakota region. This method is the default allocator for O&M expenses associated with general ledger accounts where the SAP profit center designates support for Minnesota/South Dakota.

Allocation: Study Jurisdictional Budget Transmission

This allocation is used for all budgeted plant investment that is determined to be for the direct benefit or in direct support of transmission. It is a historical allocator based on the plant investment that has been direct assigned to jurisdiction based on its state location.

Allocation: Study Jurisdictional Budget Distribution

This allocation is used for all budgeted plant investment that is determined to be for the direct benefit or in direct support of Distribution. It is a historical allocator based on the plant investment that has been direct assigned to jurisdiction based on its state location.

ELECTRIC UTILITY ONLY

Allocation: Energy

Fuel and fuel-related items are assigned to jurisdiction based on the energy allocator because of the direct correlation of customer sales and the level of fuel consumed. These items include all fuel, purchased energy, interchange agreement energy, and variable production expenses.

Allocation: Demand Prod (Coincident Peak)

The 12 coincident peak (CP) demand production allocator is used to assign fixed capacity related expenses, plant, and plant related items to jurisdiction. Other expenses allocated to jurisdiction based on demand include: fixed production expenses, purchased power demand expense, interchange agreement demand charges and regulatory expenses not directly related to one of NSPM's jurisdictions. Also, any A&G costs that are directly in support of production are allocated using this method.

Allocation: Demand Tran (Coincident Peak)

The 12 CP demand transmission allocator is used to assign transmission FERC Accounts in support of NSPM's jurisdictions. Also, any A&G costs that are directly in support of transmission are allocated using this method.

Allocation: Two-Factor Allocator (A&G Only)

Expressed as an equally weighted factor based on electric plant in service and electric O&M expense (excluding A&G); the two-factor allocator is used to allocate electric A&G costs when there is not a direct or cost causative method available. Generally, all corporate electric A&G costs are allocated using this method.

GAS UTILITY ONLY

Allocation: Retail Revenues Cost of Gas Recovery - Demand, Commodity and Purchased Gas Adjustment True-up Study

Retail revenues include components for the recovery of costs associated with product and delivery of product to the service area. Such costs include capacity or entitlement costs, pipeline transportation costs, commodity costs and costs of alternative gas (LPG or LNG) supplied during times of firm peak demand. Regulations provide for the automatic adjustment of billing rates for price changes and the annual true up of the cost of gas incurred. Demand, commodity, and purchased gas adjustment are components of the retail revenues cost of gas recovery study. The portion of total NSPM cost of gas included in retail revenues that the Minnesota jurisdiction represents is also applied to total Minnesota company cost of gas expense accounts to achieve revenue neutrality for revenue requirements consideration.

Allocation: Design Demand Day

Expressed as a percentage, design demand day is the ratio of the Minnesota jurisdiction firm peak demand volume to the total NSPM firm peak demand volume that could occur on the distribution system on a day considered to be the most severe weather conditions that can be experienced.

Allocation: Load Dispatch

Expressed as a percentage, load dispatch is a combination of the Minnesota jurisdiction design demand day and the Minnesota jurisdiction total retail sales and transportation throughput each weighted equally.

Allocation: Limited Firm and Standby Services Study

Expressed as a percentage, limited firm and standby services, in revenues, is the ratio of Minnesota jurisdiction availability charges and volumetric charges to the total NSPM system; in costs, it is the ratio of Minnesota jurisdiction volumetric product costs to the total NSPM program product costs.

Table C

Allocation to Jurisdiction

Selection Criteria *							
Sub-Business Unit	**Plant Function**	**Functional Class ID / Description**	**Location**	**Functional Use**	**Utility**	**Jurisdiction**	**Allocation Methodology**
Budget							
Production	Production	1 / Electric Steam Production Plant			Electric	MN/ND/SD/WHSL	Electric - Demand Prod (Coincident Peak)
Production	Production	2 /Electric Nuclear Production Plant			Electric	MN/ND/SD/WHSL	Electric - Demand Prod (Coincident Peak)
Production	Production	3 / Electric Hydro Production Plant			Electric	MN/ND/SD/WHSL	Electric - Demand Prod (Coincident Peak)
Production	Production	4 / Electric Other Production Plant			Electric	MN/ND/SD/WHSL	Electric - Demand Prod (Coincident Peak)
Production	Production	4 / Electric Other Production Plant-Wind			Electric	MN/ND/SD/WHSL	Electric - Energy
Production	Production	22 / Nuclear Fuel			Electric	MN/ND/SD/WHSL	Electric - Demand Prod (Coincident Peak)
Production	Common & General	24 / Electric Intangible Plant			Electric	MN/ND/SD/WHSL	Electric - Demand Prod (Coincident Peak)
Production	Common & General	26 / Common Intangible Plant			Electric	MN/ND/SD/WHSL	Electric - Demand Prod (Coincident Peak)
Production	Common & General	29 / Electric General Plant			Electric	MN/ND/SD/WHSL	Electric - Demand Prod (Coincident Peak)
Production	Common & General	31 / Common General Plant			Electric	MN/ND/SD/WHSL	Electric - Demand Prod (Coincident Peak)
Production	Production	23 / Decommissioning	FERC MN		Electric	MN/ND/SD/WHSL	Electric - Demand Prod (Coincident Peak)
Production	Production	23 / Decommissioning	Minnesota		Electric	MN	Direct Assigned - State of Minnesota
Production	Production	23 / Decommissioning	North Dakota		Electric	ND	Direct Assigned - State of North Dakota
Production	Production	23 / Decommissioning	South Dakota		Electric	SD	Direct Assigned - State of South Dakota
Production	Production	23 / Decommissioning	Wisconsin		Electric	WI	Direct Assigned - Wisconsin
Electric Transmission	Transmission	5 / Electric Transmission Plant			Electric	MN/ND/SD/WHSL	Electric - Demand Tran (Coincident Peak)
Electric Transmission	Transmission	5 / Transmission Direct Assignment	Minnesota	DRCT	Electric	MN	Direct Assigned – State of Minnesota
Electric Distribution	Transmission	5 / Transmission Serving Distribution	Minnesota		Electric	MN	Direct Assigned - State of Minnesota
Electric Distribution	Transmission	5 / Transmission Serving Distribution	North Dakota		Electric	ND	Direct Assigned - State of North Dakota
Electric Distribution	Transmission	5 / Transmission Serving Distribution	South Dakota		Electric	SD	Direct Assigned - State of South Dakota
Production	Transmission	5 / Transmission Generation Step-up		BSLD, PEAK	Electric	MN/ND/SD/WHSL	Electric - Demand Prod (Coincident Peak)
Electric Transmission	Common & General	24 / Electric Intangible Plant			Electric	MN/ND/SD/WHSL	Electric - Demand Tran (Coincident Peak)
Electric Transmission	Common & General	26 / Common Intangible Plant			Electric	MN/ND/SD/WHSL	Electric - Demand Tran (Coincident Peak)

Selection Criteria *							
Sub-Business Unit	**Plant Function**	**Functional Class ID / Description**	**Location**	**Functional Use**	**Utility**	**Jurisdiction**	**Allocation Methodology**
Budget							
Electric Transmission	Common & General	29 / Electric General Plant			Electric	MN/ND/SD/WHSL	Electric - Demand Tran (Coincident Peak)
Electric Transmission	Common & General	31 / Common General Plant			Electric	MN/ND/SD/WHSL	Electric - Demand Tran (Coincident Peak)
Electric Distribution	Distribution	6 / Electric Distribution Plant	Minnesota		Electric	MN	Direct Assigned - State of Minnesota
Electric Distribution	Distribution	6 / Electric Distribution Plant	North Dakota		Electric	ND	Direct Assigned - State of North Dakota
Electric Distribution	Distribution	6 / Electric Distribution Plant	South Dakota		Electric	SD	Direct Assigned - State of South Dakota
Electric Distribution	Distribution	6 / Electric Distribution Plant	Wholesale		Electric	WHSL	Direct Assigned - Wholesale Full Requirements
Production	Distribution	6 / Distribution Generation Step-up		PEAK	Electric	MN/ND/SD/WHSL	Electric - Demand Prod (Coincident Peak)
Electric Transmission	Distribution	6 / Distribution Serving Transmission		TBULK	Electric	MN/ND/SD/WHSL	Electric - Demand Tran (Coincident Peak)
Electric Distribution	Common & General	24 / Electric Intangible Plant			Electric	MN/ND/SD/WHSL	Customer Year End Average - Electric Minnesota Company MN/ND/SD/WHSL
Electric Distribution	Common & General	26 / Common Intangible Plant			Electric	MN/ND/SD/WHSL	Customer Year End Average - Electric Minnesota Company MN/ND/SD/WHSL
Electric Distribution	Common & General	29 / Electric General Plant			Electric	MN/ND/SD/WHSL	Customer Year End Average - Electric Minnesota Company MN/ND/SD/WHSL
Electric Distribution	Common & General	31 / Common General Plant			Electric	MN/ND/SD/WHSL	Customer Year End Average - Electric Minnesota Company MN/ND/SD/WHSL
Gas	Production	7 / Gas Manufactured Production Plant			Gas	MN/ND	Gas - Design Demand Day
Gas	Storage	9 / Gas Underground Storage Plant			Gas	MN/ND	Gas - Design Demand Day
Gas	Transmission	10 / Gas Transmission Plant			Gas	MN	Direct Assigned – State Of Minnesota
Gas	Transmission	10 / Gas Transmission Plant			Gas	ND	Direct Assigned – State of North Dakota
Gas	Distribution	11 / Gas Distribution Plant			Gas	MN	Direct Assigned – State of Minnesota
Gas	Distribution	11 / Gas Distribution Plant			Gas	ND	Direct Assigned – State of North Dakota
Gas	Common & General	25 / Gas Intangible Plant			Gas	MN/ND	Gas - Design Demand Day
Gas	Common & General	26 / Common Intangible Plant			Gas	MN/ND	Gas - Design Demand Day
Gas	Common & General	30 / Gas General Plant			Gas	MN/ND	Gas - Design Demand Day
Gas	Common & General	31 / Common General Plant			Gas	MN/ND	Gas - Design Demand Day

Selection Criteria *							
Sub-Business Unit	**Plant Function**	**Functional Class ID / Description**	**Location**	**Functional Use**	**Utility**	**Jurisdiction**	**Allocation Methodology**
Budget							
Gas	Common & General	25 / Gas Intangible Plant			Gas	MN/ND	Customer Year End Average - Gas Minnesota Company MN/ND
Gas	Common & General	26 / Common Intangible Plant			Gas	MN/ND	Customer Year End Average - Gas Minnesota Company MN/ND
Gas	Common & General	30 / Gas General Plant			Gas	MN/ND	Customer Year End Average - Gas Minnesota Company MN/ND
Gas	Common & General	31 / Common General Plant			Gas	MN/ND	Customer Year End Average - Gas Minnesota Company MN/ND
Gas	Common & General	34 / Gas Other Storage Plant			Gas	MN/ND	Gas - Design Demand Day

* All items under the Selection Criteria must be met before this allocation takes place.

STATE OF NORTH DAKOTA
BEFORE THE
PUBLIC SERVICE COMMISSION

NORTHERN STATES POWER COMPANY 2026 NATURAL GAS RATE INCREASE APPLICATION	)))))	Case No. PU-26-___

AFFIDAVIT OF
Charles R. Henckler

I, the undersigned, being first duly sworn, depose and say that the foregoing is the Direct Testimony of the undersigned, and that such Direct Testimony and the exhibits or schedules sponsored by me to the best of my knowledge, information and belief, are true, correct, accurate and complete, and I hereby adopt said testimony as if given by me in formal hearing, under oath.

Charles R. Henckler

Subscribed and sworn to before me, this 27 day of January, 2026.

Notary Public
My Commission Expires: 01/31/2030

KURTIS M KRAUSE
NOTARY PUBLIC - MINNESOTA
My Commission Expires Jan. 31, 2030