

Staff Briefing Papers

Meeting Date	April 18, 2019		Agenda Item *1
Company	Northern States Power Company, doing business as Xcel Energy		
Docket No.	E, G-002/S-18-654 In the Matter of the Petition of Northern States Power Company for Approval of its 2019 Capital Structure and Permission to Issue Securities		
Issue	Should the Commission approve Northern States Power Company's proposed 2019 capital structure and grant permission to issue long-term and short-term securities?		
Staff	Ganesh Krishnan	ganesh.krishnan@state.mn.us	651-201-2215
	Ann Schwieger	ann.schwieger@state.mn.us	651-269-8622

Relevant Documents

Date

NSP-MN - 2019 Capital Structure Petition	October 23, 2018
NSP-MN - Revised 2019 Capital Structure Filing	December 4, 2018
Department of Commerce – Comments	December 24, 2018
NSP-MN - Reply Comments	January 14, 2019

The attached materials are work papers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless noted otherwise

To request this document in another format such as large print or audio, call 651.296.0406 (voice). Persons with a hearing or speech impairment may call using their preferred Telecommunications Relay Service or email consumer.puc@state.mn.us for assistance.

I. Statement of the Issue

Should the Commission approve Northern States Power Company’s proposed 2019 capital structure and grant permission to issue long-term and short-term securities?

II. Summary of Northern State Power Company-Minnesota’s 2019 Capital Structure Initial Filing

In the October 23, 2018 initial filing, Northern States Power Company, doing business as Xcel Energy (Xcel, NSP-MN, or the Company) projected the following capital structure as of the year-end 2018 and 2019:

Table 1 NSP-MN’s Projected Capital Structure Summary				
	December 31, 2018		December 31, 2019	
	Amount (\$ million)	Percent	Amount (\$ million)	Percent
Short Term Debt	\$249	2.3%	\$168	1.4%
Long Term Debt	\$4,937	45.4%	\$5,633	46.3%
Common Equity	\$5,683	52.3%	\$6,366	52.3%
Total Capitalization (excluding contingency)	\$10,869	100.0%	\$12,167	100.0%
Contingency			\$533	

Source: NSP-MN Initial Filing, Attachment B.

NSP-MN requests approval of its proposed 2019 capital structure with the following features:

- Total capitalization of \$12.7 billion, including the contingency of \$533 million;
- A consolidated equity ratio of 52.3 percent with a contingency range of ±10 percent (i.e., a range of 47.07 percent to 57.53 percent);
- The ability to issue short-term debt not to exceed 15 percent of total capitalization;
- Continuation of the variance permitting NSP-MN to enter into and use multi-year credit agreements and issue associated notes, and to consider any direct borrowings as short-term debt for approved capital structure purposes;
- Flexibility to issue securities provided that NSP-MN remains within the contingency ranges or does not exceed them for more than 60 days;
- Continued flexibility to issue long-term debt, provided NSP-MN remains within the limits approved for the short-term debt and equity ratios, as well as within the total capitalization limit;
- Flexibility to use risk management instruments that qualify for hedge accounting treatment;
- Approval to have discretion to enter into financings to replace outstanding long-term debt instruments with less expensive securities after considering the debt issuance expenses and amortization of redemption premiums and expenses, and to enter into tax-exempt financings if funds are available for construction programs; and,
- Approval of the 2019 capital structure by March 1, 2019, effective until the Commission issues a 2020 capital structure Order.

NSP-MN’s requested capitalization of \$12.7 billion reflects the increased spending for utility construction and infrastructure development during 2019.

The following Table 2 shows the capital structure ranges requested by NSP-MN:

Table 2 Requested Capitalization Contingency Ranges (as % of total capitalization)		
	Minimum	Maximum
Short Term Debt	0%	15%
Long Term Debt	consistent w/ the limits on short-term debt and equity ratios, as well as within the total capitalization limit*	
Common Equity	47.07%	57.53%

- NSP-MN’s forecast year-end 2019 long-term debt ratio is 46.3 percent.

NSP-MN requests approval of a contingency window of plus 10 percent and minus 10 percent (47.9 percent to 58.5 percent) around the proposed equity ratio of 53.2 percent (based on the estimated point-in-time equity ratio as of December 31, 2018). Any securities issuance by NSP-MN that results in an equity ratio within this window would fall within this authority.

NSP-MN seeks permission for its equity ratio to fall outside this contingency range for a period of 60 days without Commission approval.

At pages 12-19 of the initial filing, NSP-MN demonstrated its compliance with the filing requirements in Commission Rules and relevant prior Commission Orders.

III. NSP-MN’s Revised Capital Structure Filing

On November 20, 2018, NSP-MN sent a letter indicating that NSP-MN intended to amend its 2019 capital structure petition with information regarding proposed financing for the Company’s proposed acquisition from Southern Company of the 375 MW Mankato Energy Center (MEC I) and the 345 MW expansion project, Mankato Energy Center II (MEC II).¹

On December 4, 2018, NSP-MN filed an amended capital structure filing requesting increased capitalization to fund the proposed acquisition of MEC I and MEC II. NSP-MN maintained that if the proposal to acquire MEC I and MEC II is approved, NSP-MN would require additional capital for this transaction and, accordingly, increased its proposed 2019 total capitalization to \$13.4 billion, including a contingency of \$580 million.

The following Table 3 provides the initial and the amended proposed 2019 capital structure:

¹ On November 27, 2018, in Docket No. IP6949, E002/PA-18-702, NSP-M filed a petition for approval to acquire from Southern Power Company the 375 MW Mankato Energy Center (MEC I) and the 345 MW expansion project (MEC II) that is scheduled to go in-service in June of 2019.

Table 3 NSP-MN's Projected Capital Structure Summary				
	Initial Request December 31, 2019		Amended Request* December 31, 2019	
Column (1)	(2)	(3)	(4)	(5)
	Amount (\$ million)	Percent	Amount (\$ million)	Percent
Short Term Debt	\$168	1.4%	\$278	2.2%
Long Term Debt	\$5,633	46.3%	\$5,833	45.5%
Common Equity	\$6,366	52.3%	\$6,709	52.3%
Total Capitalization (excluding contingency)	\$12,167	100.0%	\$12,820	100.0%
Contingency	\$533		\$580	
Total Capitalization, including contingency	\$12,700		\$13,400	

*Source: Attachment B Revised 12/4/18

NSP-MN clarified that “regardless of whether the Commission approves our request to acquire MEC I and II, we request approval of the capital structure proposed in our original Petition in this docket, filed October 23, 2018.” This refers to columns 1, 2, and 3 in Table 3 above. NSP-MN requests that the Commission approve the amended capital structure if the Commission approves NSP-MN’s acquisition of MCI I and MEC II “such that the amended capitalization automatically would go into effect upon approval of that transaction.”

Specifically, NSP-MN requests approval of the following:

- Approval of the proposed capital structure and total capitalization of \$12.7 billion proposed in the original Petition in this docket, filed October 23, 2018;
- Approval of the proposed capital structure and total capitalization of \$13.4 billion proposed in this revised Petition, subject to the Commission’s approval of the Company’s proposed acquisition of MEC I and II;
- A consolidated equity ratio of 52.3 percent with a contingency range of ± 10 percent (i.e., a range of 47.07 percent to 57.53 percent);
- Ability to issue short-term debt not to exceed 15 percent of total capitalization;
- Continuation of the variance permitting Xcel to enter into and use multi-year credit agreements and issue associated notes, and to consider any direct borrowings as short-term debt² for approved capital structure purposes;

² NSP-M points out that the Commission first issued a variance allowing multi-year credit agreements to be treated as short-term debt in its March 15, 2005 Order, In the Matter of Northern States Power Company’s Request for Approval of its 2005 Capital Structure, in Docket No. E,G002/S-04-1794, and has continued this variance for the Company in its subsequent capital structure orders.

- Flexibility to issue securities provided that the Company remains within the contingency ranges or does not exceed them for more than 60 days;
- Continued flexibility to issue long-term debt, provided we remain within the limits approved for the short-term debt and equity ratios, as well as within the total capitalization limit;
- Flexibility to use risk management instruments that qualify for hedge accounting treatment;
- Continuation of flexibility to use risk management instruments to manage risk associated with the cost of capital;
- Continuation of the variance of Minn. R. 7825.1000, subp. 6 to allow NSP-MN to treat borrowings under multi-year credit agreements as short-term debt;
- Approval to have discretion to enter into financings to replace outstanding long-term debt instruments with less expensive securities after considering the debt issuance expenses and amortization of redemption premiums, and to enter into tax-exempt financings for pollution control construction programs; and
- Approval of the 2019 capital structure until the Commission issues a 2020 capital structure Order.

NSP-MN demonstrated that its 2019 capital structure filing is in compliance with the recurring filing requirements contained in:

Minn. R. 7825.1300³ (procedure applicable to issuance of short-term securities);

Minn. R. 7825.1400⁴ (filing requirements for capital structure approval); and

The Commission's order in the 2018 Capital Structure Order (Docket No. E-002/S-17-767), ordering point 6, requiring: schedule showing, for various time periods, the planned investment for each project; a summary of NSP-MN's activity in the Utility Money Pool; a discussion detailing how often multiyear credit agreements are used, the amount involved, rates and financing costs, the intended uses of the financing, and, for any period in which NSP-MN sells bonds, a comparison over a six-month period of the results of all bond issuances by other utilities; to ensure compliance with Order Points 1 and 2 of the Commission's July 9, 2004 Order in Docket No. E,G-002/AI-04-100, a comparison of the borrowing and lending interest rates from the money pool to alternative interest rates, such as that provided in NSP-MN's response to Department Information Request (IR) No. 2, shown in Attachment 2 to the Department's comments; to the extent practicable, evidence demonstrating that any bond issuances over the preceding year were cost-competitive, including at a minimum a detailed comparative

³ <https://www.revisor.mn.gov/rules/7825.1300/>

⁴ <https://www.revisor.mn.gov/rules/7825.1400/>

analysis to other bond issuances such as that provided in NSP-MN's response to Department IR No. 1(c), which is provided as Attachment 3 to the Department's comments; and summary of NSP-MN's use of risk-management instruments and the resulting effect on ratepayers.

IV. Department's Comments

The Minnesota Department of Commerce, Division of Energy Resources (Department) filed its Comments on December 24, 2018.

The Department concluded that NSP-MN's revised requested total capitalization and its revised contingency are reasonable if its petition for acquiring MEC I and MEC II is approved by the Commission and the in-service date commences sometime during 2019.

The Department also believes that NSP-MN's requested range of common equity ratio of 47.07 percent to 57.53 percent is a +10 percent range with a midpoint of 52.3 percent was reasonable.

The Department notes that the 52.3 percent equity ratio requested by the Company is significantly higher than the mean equity ratio (45.1 percent) for the comparable group (electric utilities with S&P credit rating in the range BBB to A+. The Department added that such higher equity ratio allows the Company to borrow long-term debt at lower interest rates.

Regarding the 15 percent cap on short-term debt, the Department noted that it has been in effect for over a decade and has historically served its purpose of providing NSP-MN with adequate short-term financial flexibility while not unduly risking harm to ratepayers.

The Department recommends that the Commission approve NSP-MN's request for flexibility to issue securities provided that the Company remains within the contingency ranges or does not exceed them for more than 60 days.

The Department agrees with NSP-MN that risk-management instruments such as interest rate swaps can benefit ratepayers as long as NSP-MN follows prudent corporate guidelines in its use of such instruments and allows the Commission sufficient oversight, which is achieved through the Department's recommended risk-management reporting requirements:

- A schedule showing, for various time periods, the planned investment for each project;
- A summary of NSP-MN's activity in the Utility Money Pool;
- Regarding NSP-MN's use of multi-year credit agreements a discussion detailing how often they are used, the amount involved, rates and financing costs, the intended users of the financing, and, for any period in which NSP-MN sells bonds, a comparison over a six-month period of the results of all bond issuances by other utilities; and
- To ensure appropriate oversight of NSP-MN's use of risk-management instruments, the Department recommends that the Commission require all future NSP-MN capital-

structure filings to include a summary of NSP-MN's use of risk-management instruments and the resulting effect on ratepayers.⁵

The Department notes that NSP-MN's current multi-year credit agreement resembles traditional short-term debt instruments and classifying multi-year credit agreements as long-term debt could cause credit-rating agencies to react unfavorably, thus imposing excessive burden on NSP-MN and hurting ratepayers. In addition, classifying multi-year credit agreements as short-term debt does not conflict with any standards imposed by law. The Department recommends the Commission continue to vary Minn. Rules 7825.1000, subp. 6, and allow NSP-MN to treat borrowing under multi-year credit agreements as short-term debt.

The Department notes that NSP-MN's request that the Commission allow financings to replace outstanding long-term debt instruments with less expensive securities, and tax-exempt financings for pollution-control construction programs, would reduce costs to ratepayers and recommends that the Commission grant NSP-MN's request. However, to ensure adequate oversight, the Department recommends the Commission require NSP-MN, in its next capital structure filing, to report on such financings and their impact on ratepayers.

In summary, the Department recommends that the Commission (Staff has made language changes, in two minor respects, in the interest of clarity; the changes are underlined):

- 1) Approve NSP-MN's requested 2019 capital structure as filed in the original Petition (including total capitalization) effective until the Commission approves NSP-MN's ~~2019~~ 2020 capital structure;
- 2) Allow NSP-MN to issue securities provided that the Company remains within the approved capital structure or does not go outside the approved capital structure for more than 60 days without the Commission's preapproval;
- 3) Require NSP-MN, in future capital structure filings, to provide evidence to demonstrate that any bond issuances over the preceding year were cost competitive, including at a minimum a detailed comparative analysis to other bond issuances;⁶
- 4) Continue to allow NSP-MN to use risk-management instruments that qualify for hedge accounting treatment under Accounting Standard Codification No. 815;
- 5) Continue to allow NSP-MN to treat borrowing under multi-year credit agreements as short-term debt, by varying Minn. Rules part 7825.1000~~0~~, subpart 6;
- 6) Allow NSP-MN to enter into financings to replace outstanding long-term debt instruments with less expensive securities, and tax-exempt financings for pollution

⁵ As of now, NSP-M has not entered into and does not have any outstanding risk management instruments.

⁶ Staff Note: See NSP-MN's response to Department IR No. 1[c], provided in Attachment 3 to the Department's December 1, 2017 comments on Xcel's 2018 capital structure filing, in Docket No. E,G-00/S-17-767.

control construction programs, provided NSP-MN's next capital structure filing reports on any such financings entered into and their effect on ratepayers;

- 7) Require NSP-MN to report the information described in section II.I (Additional Permanent Reporting Requirements) of the Department's comments in all future capital-structure filings;⁷ and
- 8) Approve NSP-MN's 2019 revised Capital Structure subject to Commission approval of the Company's acquisition of MEC I and MEC II in 2018 or 2019 and subject to NSP-MN acquiring MEC-I and MEC-II in 2019.

V. NSP-MN's Reply Comments

January 14, 2019, NSP-MN filed its Reply Comments in which it accepted the Department's recommendations.

VI. Staff Comment

In most respects, NSP-MN's filing is similar to the filings it has filed in recent years. This filing is complete and meets all of the requirements contained in Minn. Rules and prior Commission orders.

The Department has recommended approval of the initial or original filing which does not contemplate NSP-MN acquiring MEC-I and MEC-II. However, in the event the Commission approves acquisition of MEC-I and MEC-II, the Department recommends approval of the revised or amended petition.

Staff agrees with both the Company and the Department that regardless of whether the Commission approves the Company's request to acquire MEC I and II, the Commission should approve the capital structure proposed in the original Petition, filed October 23, 2018. The Commission should also state in its Order that if the Commission approves NSP-MN's petition to acquire MEC I and MEC II, the amended capital structure and the amended capitalization would automatically go into effect upon approval of that transaction.

Staff notes that the Department's recommendations (1) and (8) above accomplish this purpose.

⁷ These requirements are the same as those in ordering point 6, June 20, 2018 Order, in Docket E-002/S-17-767.

VII. Decision Alternatives

- A.** Approve NSP-MN's proposed 2019 capital structure and grant permission to issue securities by adopting the Department's analysis and recommendations (1) through (8) above and as amended. Require the Company, in all future capital structure filings, to comply with the filing requirements noted in the Department's comments.

- B.** Other action by the Commission.