

April 22, 2021

Will Seuffert
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
Saint Paul, Minnesota 55101-2147

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. E,G002/S-20-768

Dear Mr. Seuffert:

Attached are the Comments of the Minnesota Department of Commerce, Division of Energy Resources (Department), in the following matter:

Second Petition of Northern States Power Company for Approval of Its 2021 Capital Structure.

The Petition was filed on March 23, 2021 by:

Patricia L. Martin
Assistant Treasurer
Xcel Energy Services Inc.
414 Nicollet Mall (401-4th Floor)
Minneapolis, Minnesota 55401.

The Department recommends that the Minnesota Public Utilities Commission (Commission) **allow Xcel to increase its maximum capitalization to \$15.332 billion, while maintaining all other aspects of the February 23, 2021 Order issued in this docket (E,G002/S-20-768)**. The Department is available to answer any questions that the Commission may have.

Sincerely,

/s/ STEPHEN COLLINS
Financial Analyst
SC/ja
Attachment



Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce Division of Energy Resources

Docket No. E,G002/S-20-768

I. INTRODUCTION

On October 5, 2020, Northern States Power Company doing business as Xcel Energy (Xcel¹ or the Company) filed a petition (First Petition) requesting that the Minnesota Public Utilities Commission (Commission) approve the Company's 2021 capital structure.

On February 23, 2021, the Commission issued an Order approving the First Petition with one modification, to be effective until the Commission issues a 2022 capital structure order, including the following elements:

- An equity ratio from 47.16% to 57.64% (i.e. 52.4% +/- 5.24%).
- A short-term debt limit of 15% of total capitalization.
- A maximum capitalization for Xcel of \$13.947 billion in 2021, including a base capitalization of \$13.301 plus a contingency of \$646 million, or 4.86%.
- Continuation of the variance to Minnesota Rule 7825.1000, subpart 6, to allow Xcel to treat borrowing under multi-year credit agreements as short-term debt for approved capital structure purposes.
- Use of risk management instruments that qualify for hedge accounting treatment.
- Authorization to issue securities provided that Xcel does not exceed the limits of the approved equity ratio, maximum short-term debt ratio, or maximum capitalization for more than 60 days without Commission authorization.

On March 23, 2021, Xcel filed a petition (Second Petition) to update the Company's approved 2021 capital structure. The Second Petition states:

Due to financing needs the Company has incurred since the Original Petition was filed, we now anticipate that we may be out of compliance with the Capital Structure Order as soon as May 1, 2021 and as such, are seeking Commission authorization to update our 2021 capital structure through this Petition with the Commission. The Company's need for an updated capital structure order are driven by the following:

¹ Since Xcel is both an electric and gas utility, the capital structure petition pertains to Xcel's combined electric and gas operations (in addition to Xcel's wholly owned subsidiaries United Power & Land Company and NSP Nuclear Corporation).

- Wind Repowering – On December 23, 2020, the Commission voted to approve the repowering of 651 megawatts (MW) of Company-owned wind projects, requiring a capital investment of approximately \$850 million, as well as a 20 MW Ewington Repowered purchase power agreement. Expenditures in 2021 for these wind repowering projects were not included in the Original Petition.
- 2020 Minnesota Electric Rate Case – In November 2020, we filed a three-year electric rate case with the Commission and also a stay-out alternative in which we would withdraw our rate case filing if approved by the Commission. On December 17, 2020, the Commission voted to approve the stay-out alternative petition. The Original Petition forecasted revenues, requested in the electric rate case, beginning in January 2021, therefore the stay-out has resulted in a delay in the cash receipts forecasted as additional revenue and created additional financing needs in 2021.
- Increased Natural Gas Costs due to winter storm Uri – In February 2021, winter storm Uri caused extreme cold temperatures throughout the United States. This severe weather event increased the demand and price of natural gas used in our electric and natural gas businesses. As a result, natural gas fuel costs increased approximately \$300 million in NSP-MN territories (amount is based on preliminary estimates through February 16, 2021 and is subject to final settlement), increasing the Company's need for additional financing to cover such extraordinary costs.

To support these incremental financing needs not contemplated in our Original Petition, we submit this Petition to update the capital structure for 2021 for total capitalization of \$15.3 billion, including a contingency of \$850 million.

Specifically, the Second Petition requests that the Commission approve the following, effective until the Commission issues a 2022 capital structure Order:

- An equity ratio from 47.16% to 57.64% (i.e. 52.4% +/- 5.24%).
- A short-term debt limit of 15% of total capitalization.
- **A maximum capitalization for Xcel of \$15.332 billion, including a base capitalization of \$14.482 plus a contingency of \$850 million, or 5.87%.**
- Continuation of the variance to Minnesota Rule 7825.1000, subpart 6, to allow Xcel to treat borrowing under multi-year credit agreements as short-term debt for approved capital structure purposes.

- Use of risk management instruments that qualify for hedge accounting treatment.
- Authorization to issue securities provided that Xcel does not exceed the limits of the approved equity ratio, maximum short-term debt ratio, or maximum capitalization for more than 60 days without Commission authorization.

The only difference between this request and the current approved capital structure is the total capitalization shown above in bold. That is, Xcel is requesting to increase its maximum capitalization by \$1.385 billion relative to what was approved based on the First Petition (\$15.332 billion minus \$13.947 billion). Table 1 below shows Xcel’s forecasted change in capitalization from the end of 2020 to the end of 2021 and compares the forecasted end-of-year 2021 capitalization to what was forecasted and requested in the First Petition.

Table 1: Xcel’s Forecasted Change in End-of-Year Capitalization²

	Form 10-K	Second Petition	Δ from 2020 2021 - 2020	First Petition	Δ to Second Petition
(millions)	2020	2021		2021	2021
Common Equity	\$6,769	\$7,583	\$814	\$6,964	\$619
Short-Term Debt	\$179	\$145	-\$34	\$33	\$112
Long-Term Debt	\$5,904	\$6,754	\$850	\$6,304	\$450
Total Debt	\$6,083	\$6,899	\$816	\$6,337	\$562
Base Capitalization	\$12,852	\$14,482	\$1,630	\$13,301	\$1,181
Contingency	n/a	\$850		\$646	\$204
Maximum Capitalization	n/a	\$15,332		\$13,947	\$1,385

In contrast to Xcel’s requested increase in total capitalization, the Department notes that Xcel’s capital needs are only increasing by \$348 million as shown in the “Total Capital Requirements” row in Table 2 below. The \$348 difference is primarily attributable to \$260 million of additional capital expenditures for “Energy Supply,” which is nearly 100% attributable to additional spending on wind farms.³

² Based on Attachment B in the Second Petition.

³ Second Petition, Attachment N, page 1 (see “Variance from prior filing”).

The Department concludes that the remainder of Xcel’s request is driven by Xcel’s desire to maintain equity ratios, cover short-term financing needs above and beyond what was forecasted in the First Petition, as well as Xcel’s desire to have an additional capitalization cushion.

Table 2: Xcel 2021 Forecasted Sources and Uses of Funds (Millions)

(millions)	<u>Second Petition</u>	<u>First Petition</u>	<u>Δ</u>
<u>Sources:</u>			
Financings: Long Term			
Equity Infusions	\$625	\$125	\$500
Long-Term Debt Issuances	<u>\$850</u>	<u>\$400</u>	<u>\$450</u>
Total Long-Term Financings	<u>\$1,475</u>	<u>\$525</u>	<u>\$950</u>
Financings: Short-Term Debt / Internal Funds			
	<u>\$426</u>	<u>\$1,028</u>	<u>-\$602</u>
Total Sources	<u><u>\$1,901</u></u>	<u><u>\$1,553</u></u>	<u><u>\$348</u></u>
<u>Uses:</u>			
Retirements/Redemptions			
Long-Term Debt	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Total Retirements/Redemptions	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Capital Requirements			
Energy Supply	\$666	\$406	\$260
Nuclear	\$223	\$223	\$0
Distribution	\$531	\$526	\$5
Transmission	\$233	\$234	-\$1
Other	<u>\$248</u>	<u>\$164</u>	<u>\$84</u>
Total Capital Requirements	<u>\$1,901</u>	<u>\$1,553</u>	<u>\$348</u>
Total Uses	<u><u>\$1,901</u></u>	<u><u>\$1,553</u></u>	<u><u>\$348</u></u>

II. DEPARTMENT ANALYSIS

Utilities’ equity ratios should be low enough to take advantage of debt’s lower cost of financing (relative to equity), but not so high as to unduly risk financial distress. The Department has already concluded that Xcel’s 47.16% to 57.64% equity ratio range is reasonable in the first respect (low enough to take advantage of debt’s lower cost of financing) for 2021. The remaining question

therefore is whether the combination of this equity ratio range and Xcel’s proposed maximum capitalization could allow Xcel to unduly risk financial distress.

In effect, Xcel’s proposed updated maximum capitalization would allow Xcel to reach up to \$8.101 billion ($[1 - 47.16\%] * \15.332 billion) of debt outstanding. For a utility, the ratio of debt to earnings before interest and taxes (EBIT)⁴ indicates the years needed to pay back its current level of debt principal, assuming constant EBIT. In 2019 and 2018, Xcel generated EBIT of \$787 million and \$717 million, respectively. Xcel’s total debt at the end of the same years was \$5.551 billion and \$5.087 billion, respectively. The debt/EBIT ratio for both years was 7.1x. In 2020, Xcel’s EBIT increased to \$796 million, or 7.9x Xcel’s 2020 end-of-year debt of \$6,083.⁵

For 2021, if EBIT grows by 5% to \$807 million, at Xcel’s forecasted end-of-year debt of \$6.899 billion⁶ Xcel would reach a debt/EBIT ratio of 8.5x, which is significantly higher than 2018 and 2019’s ratio of 7.1x, and slightly higher than 2020’s ratio of 7.9x. If Xcel reached its maximum debt outstanding of \$8.101, the debt/EBIT ratio would be 10.0x. Table 3 below summarizes this analysis.

Table 3: Xcel Debt/EBIT

(\$ in millions)	2021 forecast	2020 actual	2019 actual	2018 actual
EBIT (Op inc.)	\$807	\$769	\$787	\$716
Current portion of long-term debt		\$0	\$300	\$0
Short-term debt		\$179	\$30	\$150
Long-term debt		\$5,904	\$5,221	\$4,937
Total debt	\$6,899	\$6,083	\$5,551	\$5,087
Debt / EBIT	8.5x	7.9x	7.1x	7.1x
Max debt	8,101			
Max debt / EBIT	10.0x			

While Xcel’s leverage is increasing, the Department notes Xcel is not required to pay back the principal on most of its recent debt issuances for several decades, given their 30 or 31-year term at issuance.

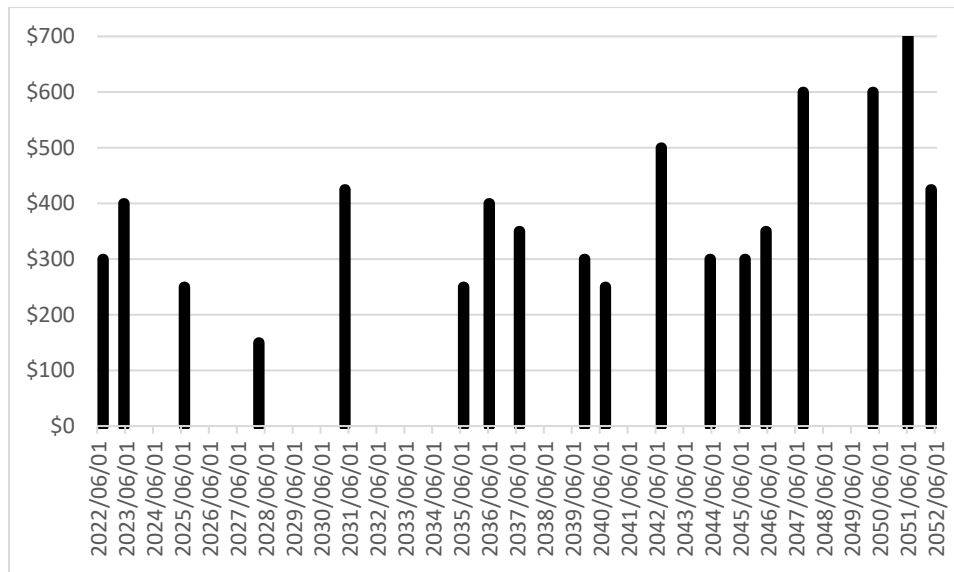
⁴ For the purposes of the analysis in these comments, the Department defines EBIT as operating income.

⁵ Data source: Xcel’s SEC 10-Ks.

⁶ Second Petition, Attachment B.

The chart below shows Xcel’s long-term debt obligations by amount (millions of dollars, Y axis) and maturity date (X axis).

Figure 1: Xcel’s Long-Term Debt Obligations⁷



In addition, Xcel continues to maintain an A- rating from S&P, which is three notches above the BBB-minimum needed to qualify as “investment grade.”

Finally, the Department notes on March 30, 2021, Xcel issued the \$850 of debt referenced in the Second Petition. Specifically, Xcel issued \$425 million of 2.25% first mortgage bonds due April 1, 2031 and \$425 million of 3.20% first mortgage bonds due April 1, 2052,⁸ representing premiums over the corresponding treasury bonds of significantly under 100 basis points. This low spread over the risk-free rate is consistent with past spreads for Xcel’s first mortgage bonds, indicating that the capital markets continue to view Xcel as financially sound and relatively low risk.

Given the information above, the Department does not view the allowable debt that Xcel could issue under the Company’s requested updated maximum capitalization as problematic.

III. RECOMMENDATION

⁷ Based on Xcel’s SEC filings.

⁸ <https://www.sec.gov/ix?doc=/Archives/edgar/data/1123852/000119312521099568/d105536d8k.htm>

The Department recommends that the Commission allow Xcel to increase its maximum capitalization to \$15.332 billion, while maintaining all other aspects of the February 23, 2021 Order issued in this docket (E,G002/S-20-768).

CERTIFICATE OF SERVICE

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

**Minnesota Department of Commerce
Comments**

Docket No. E, G002/S-20-768

Dated this 22nd day of April 2021

/s/Sharon Ferguson

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