

## Staff Briefing Papers

Meeting Date    May 27, 2021    Agenda Item 2\*

Company    Northern States Power Company, dba Xcel Energy

Docket No.    **E,G-002/S-20-768**

**In the Matter of** the Petition of Northern States Power Company for Approval of Capital Structure for Issuance of Long-Term and Short-Term Securities for 2021

Issue    Should the Commission approve Northern States Power Company’s modified proposed 2021 capital structure and grant permission to issue long-term and short-term securities?

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### ✓ Relevant Documents

#### Date

Xcel Energy - Initial Filing - 2021 Capital Structure Petition (TS)	October 5, 2020
Department of Commerce - Comments	December 21, 2020
Xcel Energy - Reply Comments	December 22, 2020
Public Utilities Commission – Briefing Papers	February 10, 2021
Public Utilities Commission – Order	February 23, 2021

### Updated Petition

Xcel Energy – Updated Petition (TS)	March 23, 2021
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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.

 **Relevant Documents**

**Date**

Department of Commerce – Comments (2<sup>nd</sup>)

April 22, 2021

Xcel Energy – Reply Comments (2<sup>nd</sup>)

May 3, 2021

## I. Statement of the Issue

Should the Commission approve Northern States Power Company's modified proposed 2021 capital structure and grant permission to issue long-term and short-term securities up to the new, higher capitalization maximum?

## II. Introduction

Under MN Statute 216B.49, all public utilities organized under the laws of this state must seek Commission approval before offering or selling any security or, if organized under laws of another jurisdiction, selling any security which encumbers any property within Minnesota. Typically, each utility under this rule submits an annual filing which requests approval for its capital structure and its allowed equity ratio range, as well as any issuances which it plans for the next year. Any issuance of security which would result in a variance from that equity ratio or which would cause the utility to exceed its approved capitalization for more than 60 days requires additional Commission approval. Xcel's amended petition is intended to comply with this requirement for authorization.

## III. Summary of Northern States Power Company's 2020 Capital Structure Initial Filing and Adjudication

On October 5, 2020, Northern States Power Company, dba Xcel Energy (Xcel) filed a petition seeking approval of its proposed 2021 capital structure, as well as permission to issue securities within the scope of the proposed capital structure, plus contingencies. On December 11, 2021, the Department of Commerce, Division of Energy Resources (Department) filed its comments, with Xcel filing reply comments on December 22. In its February 22, 2021 Order, in this docket, the Commission approved:

- Xcel's proposed capitalization of **\$13.9 billion**, including a **\$646 million** contingency;
- A consolidated equity ratio of **52.4 percent** with a contingency range of **+/- 10 percent**, i.e. a range of **47.16 percent** to **57.64 percent**;
- The ability to issue short-term debt not to exceed **15 percent** of total capitalization;
- **Continuation of the variance** permitting Xcel to enter 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 the Company remains within the contingency ranges or does not exceed them for more than 60 days without Commission authorization;
- Continued flexibility to issue long-term debt, provided Xcel 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;
- 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 premia and expenses, and to enter into tax-exempt financing if funds are available for construction programs; and,

- This capital structure to be effective until the Commission issues a 2022 capital structure Order.

Xcel enumerates approximately \$8 billion in planned investment over the next 5 years, including significant investments in wind, nuclear power (mostly fuel purchases), electric transmission, and gas and electric distribution.<sup>1</sup> In 2021, Xcel plans to issue approximately \$400 million in long-term debt, and expects to receive about \$125 million in equity infusions from its parent company, Xcel Energy Inc. (XEI). This is less new long-term debt than Xcel issued in 2020 or 2019, when Xcel issued \$700 million and \$600 million respectively.

In its December 21, 2020 Comments, the Department generally recommended approval of Xcel's filing. The Department noted that in its Summary of Filing, Xcel states "The Company requests authorization to make one or more issues of securities with the provision that these parameters will not be exceeded for more than 60 days without notifying the Commission." The Department recommended that this be modified so that Xcel is authorized to make one or more issues of securities with the provision that these parameters will not be exceeded for more than 60 days without APPROVAL from the Commission. Xcel agreed to this condition in reply comments, and this condition was included in the Commission Order of February 22.

#### **IV. Xcel Energy's Amended Petition**

On March 22, 2021, Xcel Energy filed a petition for approval of an update to the Company's approved capital structure for 2021, pursuant to Minn. Stat. §7825.1000-7825.1500. Xcel states that, due to financing needs that have arisen since the Original Petition was filed, it now anticipates that they may be out of compliance with the February 22, 2021 Capital Structure Order in this Docket as soon as May 1, 2021. Xcel states that its need for additional capitalization is driven by the following projects:

- Wind Repowering – The Commission approved 651 MW of Company-owned wind projects on December 23, 2020. These expenditures for 2021 were not included in the 2021 capital structure.
- 2020 Rate Case – the original petition included revenues from the 2020 rate case petition. Since the Commission approved the stay-out proposal, those cash receipts are delayed or no longer available, increasing financing needs from non-cash sources.
- High natural gas prices in February 2021 increased natural gas costs by about \$300 million in NSP-MN territories, increasing Xcel's need for additional financing to carry those costs until they are recovered through the fuel clause.

Due to these increased expenses, Xcel is requesting a new capitalization of \$15.3 billion (up from \$13.9 billion currently approved), including a contingency of \$850 million (up from \$646 million approved). All other terms of the amended request, including the equity ratio of 52.4% with a 10% contingency, limiting short-term debt to 15%, and the waiver to continue the variance allowing Xcel to treat multi-year credit arrangements as short-term debt, are the same as originally requested and approved.

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<sup>1</sup> Please see Department, Comments, p. 2, Table 1. (December 21, 2020)

Xcel's actual and forecasted capital structure as amended by the new petition is shown in the table below:

**Table 1: Updated Capital Structure Forecast<sup>2</sup>**  
(millions of dollars)

	June 30, 2020 Actual		December 31, 2020 Forecast <del>Actual</del>		December 31, 2021 Forecast		Row
Common Equity	6,290	50.4%	<del>6,667</del> 6,769	<del>52.3%</del> 52.7%	<del>6,964</del> 7,583	52.4% +/-5.24%	1
Short Term Debt	0	0%	<del>166</del> 179	<del>1.3%</del> 0.2%	<del>33</del> 145	<del>0.2%</del> 1.0%	2
5-year Credit Facility	0	0%	0	0%	0	0%	3
Total STD	0	0%	<del>166</del> 33	<del>1.3%</del> 0.2%	<del>33</del> 145	<del>0.2%</del> 1.0%	2+3
Long Term Debt	6,202	49.6%	<del>5,905</del> 5,904	<del>46.4%</del> 45.9%	<del>6,304</del> 6,754	47.4% 46.6%	4
Total Capitalization	12,492		<del>12,738</del> 12,852		<del>13,301</del> 14,482		1+2+3 +4
Contingency					<del>646</del> 850		5
<b>Total with Contingency</b>					<del>13,947</del> 15,332		1+2+3 +4+5

In the above table, the data from the original petition is crossed-out, and the data from the new petition is inserted in red.

## V. Parties' Comments

On April 22, 2021, the Department of Commerce, Division of Energy Resources (Department) filed its comments on the updated second petition. The Department found that the petition request is identical to the 1<sup>st</sup> petition approved by the Commission, except it increases total capitalization from \$13.947 billion to 15.332 billion, with corresponding increases to maximum total equity, total debt, base capitalization, and contingency. All other approved requests were unchanged. The Department finds that only \$348 million of the requested increase is attributable to capital spending. The rest is attributable to need to maintain equity ratios, cover short-term financing (such as the financing needed to carry the increased fuel costs from February through recovery either through the fuel clause or another mechanism designated by the Commission), and reduced revenue, rather than capital costs, attributable to the rate case stay-out.

In evaluating Xcel's proposal, the Department focused on whether the increased capitalization would potentially create undue financial distress. The Department found that the proposal increased Xcel's potential ratio of debt to Earnings before Interest and Taxes (EBIT) from 7.9x in

<sup>2</sup> Please see Xcel, Petition, Attachment B and Amended Petition, Attachment B

2020, to 8.5x in the initial petition, and to 10.1 in the new amended petition. The Department notes that this increase in leverage is mitigated by the fact that very little of Xcel's existing long-term debt is due in the near term, with most represented by 30 to 31-year bond issues which are still far from maturity. Furthermore, Xcel maintains an A- bond rating from S&P, which is three levels above the minimum for investment grade, and has a relatively small spread of well less than 100 basis points between the interest rate on its bonds and those of US Treasury bonds, traditionally considered 'risk free'. This indicates capital markets continue to view Xcel as financially sound and relatively low risk. Because of this, the Department does not view the allowable debt that Xcel could issue under the new requested maximum capitalization to be problematic.

As such, 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.

In its reply comments of May 3, 2021, Xcel agreed with the Department recommendation and requested Commission approval of these recommendations.

## VI. Staff Analysis

Staff has reviewed Xcel's filing and believes that it is complete and appropriate to approve as recommended by the Department. Staff thanks Xcel for its timely filing in advance of potentially going out-of-compliance with the prior order, which provided adequate advance time for the Commission to receive comments and make a decision within the 60 day window which the company is required to meet by rule and the prior order.

Staff also finds that Xcel continues to comply with Order Point 6 of the Commission's June 20, 2018 Order,<sup>3</sup> which required Xcel to provide in all future Capital Structure filings updated information on its investment activities, including:

- a. a schedule showing, for various time periods, the planned investment for each project;
- b. a summary of Xcel's activity in the Utility Money Pool;
- c. 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 Xcel sells bonds, a comparison over a six-month period of the results of all bond issuances by other utilities;
- d. 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 Xcel's response to Department Information Request (IR) No. 2, shown in Attachment 2 to the Department's comments;
- e. to the extent practicable, evidence demonstrating that any bond issuances over the preceding year were cost-competitive, including at a minimum a detailed comparative

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<sup>3</sup> In the Matter of the Petition of Northern States Power Company d/b/a Xcel Energy for Approval of Its Capital Structure and Permission to Issue Long- and Short-Term Securities for 2018, Docket No. E-002/S-17-767

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

## VII. Decision Alternatives

1. Approve Xcel's amended petition, to be effective until the Commission issues a 2022 capital structure order, including the following elements:
  - a) a range of equity ratio from 47.16% to 57.64% (i.e. 52.4% +/- 5.24%);
  - b) a short-term debt limit of 15% of total capitalization;
  - c) a maximum capitalization for Xcel of \$15.332 billion in 2021, including a base capitalization of \$14.482 plus a contingency of \$850 million;
  - d) 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;
  - e) use of risk management instruments that qualify for hedge accounting treatment; and
  - f) 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. (DOC, agreed to by Xcel)

OR

2. Approve any other set of terms for the Xcel capital structure as determined to be appropriate by the Commission.