MINNESOTA DEPARTMENT OF COMMERCE

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December 30, 2015

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. E,G002/S-15-948

Dear Mr. Wolf:

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

Northern States Power Company's Request for Approval of its 2016 Capital Structure Prior to Issuing Securities.

The petition was filed on October 27, 2015 by:

Brian Van Abel
Vice President and Treasurer
Xcel Energy Services
414 Nicollet Mall, 4th Floor
Minneapolis, MN 55401

The DOC will provide its recommendations regarding Northern States Power Company's (NSP-MN) proposed 2016 capital structure in a set of Supplemental Comments once it has reviewed NSP-MN's Reply Comments, and is available to answer any questions the Minnesota Public Utilities Commission may have.

Sincerely,

/s/ JOHN KUNDERT
Financial Analyst

JK/ja
Attachment

Minnesota Department of Commerce

Before the Minnesota Public Utilities Commission

Comments of the
Minnesota Department of Commerce
Division of Energy Resources

Docket No. E,G002/S-15-948

I. SUMMARY OF NORTHERN STATES POWER'S PROPOSAL

On October 27, 2015, Northern States Power Company (NSP-MN or the Company) petitioned the Minnesota Public Utilities Commission (Commission) for approval of its proposed 2016 capital structure (*Petition*). The Company is seeking:

- Approval of its proposed 2016 capital structure and total capitalization;
- Continuation of the ability to issue securities within the approved capital structure ranges;
- Approval of the 2016 capital structure to remain valid until the Commission issues an Order approving NSP-MN's 2016 capital structure;
- Continuation of flexibility to use risk-management instruments to reduce the cost of capital;
- Continuation of the variance of Minnesota Rules part 7825.1000, subpart 6 to allow NSP-MN to treat borrowings under multi-year credit agreements as short-term debt; and
- Approval to have discretion to enter into financing to replace outstanding long-term debt instruments with less expensive securities, and to enter into tax-exempt financing for pollution control construction programs.

II. DETAILS OF NSP-MN'S PROPOSAL

NSP-MN requested approval of its estimated 2016 capital structure. The Company estimated that its capital structure on December 31, 2016 will be:

Northern States Power Company 2016 Proposed Capital Structure
(Amounts in millions of dollars)
December 31, 2016 (Estimated)

	Amount	Percent
Common Equity	$5,319	52.10%
Long-Term Debt	$4,785	46.90%
5-Year Credit Facility	$0	0.00%
Short-Term Debt	$102	1.00%
Total Capitalization	$10,206	100.00%
Contingency	$544	
Total with Contingency	$10,750	

The Company also presented a maximum capital structure for December 31, 2016 in its filing. That capital structure is:

Northern States Power Company 2016 Maximum Capital Structure
(Amounts in millions of dollars)
December 31, 2016 (Estimated)

	Amount	Percent
Common Equity	$5,351	51.30%
Long-Term Debt	$4,785	45.90%
Borrowings Under 5-Year Credit Facility	0	0.00%
Short-Term Debt	$286	2.70%
Total Capitalization	$10,422	100.00%
Contingency	$328	
Total with Contingency	$10,750	

NSP-MN's proposed capital structure is limited to the Minnesota operating utility and the following wholly-owned first-tier subsidiaries:

- United Power & Land Company (UP&L), which owns real estate (primarily land); and

- NSP Nuclear Corporation, which is the parent holding company for NSP-MN's Nuclear Management Company, an inactive company.

Specific provisions for which the Company seeks approval include:

- A total capitalization of $10,750 million, including a contingency of $544 million; (total of $10,206 million without the contingency);

- A total capitalization contingency of $544 million, approximately 5.3 percent of the proposed total capitalization of $10,206 million;

- A range of ±10 percent around the proposed 2016 year-end common equity ratio of 52.1 percent, resulting in an equity range of 46.89 percent to 57.31 percent;

- A limit on short-term debt, not to exceed 15 percent of the total capitalization;

- A continuation of the variance allowing NSP-MN to enter into a multi-year credit agreement under which any direct borrowings made by the Company would be counted as short-term debt;

- The flexibility to issue common equity, and long- and short-term debt provided that the Company remains within the approved total capitalization and short-term debt and equity ranges or does not exceed them for a period of more than 60 days;

- Continued permission to use risk management instruments that qualify for hedge accounting treatment under the Financial Accounting Standards Board's Accounting Standards Codification 815 (ASC No. 815), to manage price, duration or interest-rate risk on securities;

- Approval of the requested 2016 capital structure until issuance of an Order approving NSP-MN's 2017 capital structure; and

- Approval to have discretion to enter into financings to replace the outstanding long-term debt instruments with less expensive securities, and to enter into tax-exempt financings for pollution control construction programs.

NSP-MN also set forth its planned securities activity in 2016. NSP-MN's statements about its plans include:

- *Equity.* In 2016, NSP-MN expects total equity infusions from its parent company, Xcel Energy, Inc. (Xcel) of approximately $18 million to maintain the Company's target equity ratio range proposed above.

- *Long-term debt.* The forecasted year-end 2016 long-term debt ratio is 46.9 percent and includes a $250 million debt issuance.[1] The proceeds of this new debt issuance will be used to repay short-term debt, fund NSP-MN's utility

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[1] The Company estimates long-term debt issuance of up to $250 million in the second quarter of 2016.

construction program, and for other general corporation purposes. Attachment H of the Company's filing provides details of the Company's July 2015 through December 2016 sources of funds and the Company's capital requirements. (DOC Attachment No. 4)[2]

- *Short-term debt.* NSP-MN plans to issue short-term debt in an amount not to exceed 15 percent of total capitalization to provide funds for NSP-MN utility operations, investments in the utility money pool, interim financing for NSP-MN construction expenditures, and loans to NSP-MN's wholly-owned subsidiary NSP Nuclear Corporation.

III. ANALYSIS

The Department's analysis of a public utility's annual capital structure filing requires;

- A determination that the changes proposed for the affected utility's capital structure are consistent with Minnesota Stat. §216B.49;
- A review of the filing to ensure that the affected utility has provided all the information required by Minn. Rules 7825.1000 – 7825.1500; and
- A review the filing to ensure that the affected utility has provided all the information required by specific Commission Orders.

Turning to the statutory requirements, Minn. Stat. §216B.49, subd. 3 states that:

> It is unlawful for any public utility organized under the laws of this state to offer or sell any security or, if organized under the laws of any other state or foreign country, to subject property in this state to an encumbrance for the purpose of securing the payment of any indebtedness unless the security issuance of the public utility is first approved by the commission . . ..

Further, Minn. Stat. §216B.49, subd. 4 states in part that:

> If the commission shall find that the proposed security issuance is reasonable and proper and in the public interest and will not be detrimental to the interests of the consumers and patrons affected thereby, the commission shall by written order grant its permission for the proposed public financing.

[2] DOC Attachment 1 provides an index of DOC Attachments 2 through 13 to facilitate referencing these documents.

Based on the above statutes, the DOC discusses the reasonableness of both NSP-MN's projected capital structures and its request to allow the issuance of various securities.

A. CAPITAL STRUCTURE

As noted above, NSP-MN's capital structure includes NSP Nuclear Corporation, which is the parent holding company for NSP-MN's Nuclear Management Company. However, given that Nuclear Management Company is an inactive company, the Department requests that the Company identify in reply comments the purpose(s) that the NSP Nuclear Corporation serves and the advantages and disadvantages of having NSP Nuclear Corporation structured as a first-tier subsidiary as opposed to being treated similarly to NSP-MN's other generation facilities.

To check the reasonableness of NSP-MN's proposed and proposed maximum 2016 year-end capital structures, the DOC compared the equity ratios in the Company's capital structures with the average equity ratio of electric utilities that are risk-comparable to NSP-MN. Attachment A contains this analysis. Table 1 provides a summary of the information included in DOC Attachment 2.

Table 1 – Comparison of NSP's Proposed and Proposed Maximum Year-End 2016 Capital Structures to 2014 Year-End Capital Structures for Risk-Comparable Electric Utilities (%s)

Description	Common Equity	Long-Term Debt	Short-Term Debt	Preferred Stock
Comparable Group Average[3]	45.14	48.98	5.13	0.74
Proposed 12/31/16 Capital Structure	52.10	46.90	1.00	0.00
NSP-MN's Difference from Average	**6.96 higher**	**2.08 lower**	**4.13 lower**	**0.74 lower**
Proposed 2016 Maximum Capital Structure	51.30	45.90	2.7	0.00
NSP-MN's Difference from Average	**6.16 higher**	**3.08 lower**	**2.13 lower**	**0.74 lower**

The year-end 2014 average equity ratio for publicly traded electric utilities with bond ratings from A to BBB-[4] was 45.14 percent. Their year-end 2014 average long-term debt ratio was 48.98 percent. The DOC notes that the Company's proposed equity ratios of 52.1 and 51.3 percent, respectively, under its proposed and maximum capital structures are higher than the group's average equity ratio, and the Company's proposed debt ratios are lower than the group's average debt ratios. Therefore, the proposed NSP-MN capital structures do not

[3] Source: Compustat Data for Standard & Poor's Research Insight, November 30, 2015.
[4] NSP-MN's Standard and Poor's long-term bond rating is A.

raise concerns about equity ratios that are too low to ensure the financial health of the Company. Consequently, the DOC concludes that NSP-MN's proposed 2016 capital structures are appropriate from this perspective.

B. CONTINGENCIES

1. Common Equity Ratio

NSP requested a ±10 percent contingency range around the requested common equity ratio. This range is as follows:

	Estimated Contingency Range		
	Average	Low	High
Common Equity	52.1%	46.89%	57.31%

The Department concludes that this range is reasonable because it has historically provided the Company with adequate financial flexibility, kept NSP-MN on sound financial footing, and allowed the Commission sufficient oversight. The Company has also identified a planned equity infusion from Xcel Energy Inc. in 2016 that is expected to keep the common equity ratio within the proposed range.

2. Short-Term Debt and Total Capitalization

a. Short-term debt

NSP-MN requested a contingency to issue short-term debt not to exceed 15 percent of total capitalization at any time while the 2016 capital structure is in effect. This request for flexibility is consistent with the flexibility allowed by the Commission for the Company's 2015 capital structure. The DOC concludes that the 15 percent cap would allow the Company needed and reasonable flexibility given short-term fluctuations in the Company's revenues and expenditures.

b. Total capitalization

The proposed total capitalization with contingency of $10,750 million includes a contingency amount of $544 million, or about 5.3 percent of the total capitalization without contingency. This proposed contingency would allow flexibility in the Company's funding of utility construction and unforeseen business or financial conditions that might develop during the year. Based on the above discussion, the DOC concludes that NSP-MN's request for contingency of $544 million for total capitalization is reasonable.

C. CONTINUANCE OF THE VARIANCE FOR MULTI-YEAR CREDIT AGREEMENT

Minnesota Rule 7825.1000, subp. 6 defines "short-term security" as follows:

> "Short-term security" means any unsecured security with a date of maturity of no more than one year form the date of issuance; and containing no provisions for automatic renewal or "roll over" at the option of either the oblige or obligor.

NSP-MN was granted a variance to Minnesota Rules part 7825.1000, subpart 6 in the 2005 Capital Structure Order[5] allowing the Company to treat borrowings under a multi-year credit facility as captured in the short-term debt authorization of up to 15 percent of total capitalization. The Commission also granted the Company a continuation of this variance in its 2006 through 2015 Annual Capital Structure Orders. The variance was granted with the provision that the Company report on its use of multi-year credit facilities. The Company included that report as Attachment C of its *Petition*.

NSP-MN stated that it entered into a four-year revolving credit facility for $500 million on March 17, 2011 (March 2011 Agreement). It replaced a $500 million, five-year credit facility that was signed by the Company in December 2006. The upsizing of the credit facility was exercised to receive more favorable fees and interest rates. As provided for in the March 2011 Agreement, on July 27, 2012 the Company amended and extended the initial Agreement. The Amended Agreement includes no substantive changes to the terms of the March 2011 Agreement, but it includes lower credit fees. On October 14, 2014, NSP-MN executed an extension of its July 27, 2012 agreement to be in place until October 14, 2019. The Amended Agreement would allow the Company to extend the life of the Agreement and increase its amount. The DOC discusses these transactions further below.

1. Frequency of Use and Amounts Borrowed

Attachment C of the Company's filing shows that the Company hasn't borrowed any money from this credit facility over the period January 2013 through August of 2015. Consistent with past practice, the Department has included a copy of this information from the *Petition* as DOC Attachment 3.

2. Rates and Financing Costs

As indicated earlier, the Company did not borrow any money from its credit facility for the period January 2013 through August 2015. The credit facility's fees as a percentage of the credit line were 0.23 percent in 2013, 0.20 percent in 2014, and 0.19 percent through August 2015. Based on the credit facility's low fees, the explanation of the benefits of the

[5] Docket No. E,G002/S-04-1794.

credit facility as provided by NSP-MN in its Attachment C of the *Petition* and the detailed discussion of the benefits of the credit facility in the DOC comments in Docket No. E,G002/S-09-1161, the DOC concludes that the direct costs associated with the credit facility are reasonable.

3. Intended Uses of Financing

The current five-year revolving credit facility is used primarily for commercial paper back-up but can also provide for direct borrowings from the banks that support the credit agreement.

In addition, letters of credit may be issued using the revolving credit facility as a liquidity back-up.

For the period January 2013 through August 2015, the lack of borrowing activity under the Agreement suggests that it was cheaper for NSP-MN to borrow short-term debt from its money pool or directly from financial institutions. However, the credit facility is needed as an insurance instrument for periods in which the financial markets are tight and there is lack of liquidity in the short-term debt markets.

4. Continuation of the Variance to Minn. Rule Part 7825.1000, Subpart 6

The Company asserts in its 2016 Petition that the requested variance meets the three-part test for variance as provided for by Commission rules under Minn. Rule 7829.3200. The three parts of the test are:

a. Enforcement of the rule would impose an excessive burden upon the applicant or others affected by the rule;

b. Granting the variance would not adversely affect the public interest; and

c. Granting the variance would not conflict with standards imposed by law.

The Company supported its assertion as follows:

a. Enforcement of the rule would impose an excessive burden upon the applicant or others affected by the rule

As discussed in the Company's Attachment C, the Company's request involves the use of a multi-year credit facility as if it were short-term debt. If this variance is not allowed, the burden is that such direct borrowings under a multi-year credit facility would not be available, unless the Commission allows greater flexibility with regard to long-term debt. Because the purposes and manner in which these funds would be used resemble traditional use of short-term securities, the Company concluded that any borrowing from the multi-year credit facility should be counted as short-term debt and should be subject to the 15-percent limit. Without the ability to use these facilities, an additional consequence may be an unfavorable reaction by credit rating agencies that view these as enhanced liquidity structures without which fewer financing options would exist. An unfavorable reaction by credit rating agencies could lead to increased financing costs and fees.

b. Granting the variance would not adversely affect the public interest

The Commission retains oversight over these types of issues through annual capital structure filings, which set the 15 percent limit, the equity ratio, and the equity ratio ranges. These parameters assure that the Company will continue to have a capital structure that meets the public interest. In addition, these instruments allow the Company to lock in liquidity and fee structures for several years, which is also in the public interest.

c. Granting the variance would not conflict with standards imposed by law

This variance would not conflict with law.

The Company indicated that it believes a continuation of the variance is appropriate. Because the intended use of such facilities is to meet short-term funding requirements, the Company believes that granting this variance offers the most direct and consistent way of addressing this issue.

The DOC analyzed the direct costs and benefits associated with granting the Company's requested variance in detail in a previous capital structure petition (Docket No. E,G002/S-09-1161). In its earlier analysis, the DOC concluded that the variance met the three conditions required under Minn. Rule 7829.3200. Further information regarding the direct costs associated with Company's use of the credit facility confirms that conclusion.

However, the Department has questions regarding potential indirect costs associated with the credit facility agreement which are discussed in a following section. Thus, the DOC will defer making a recommendation regarding whether the Commission should grant the Company's variance request until it has had the opportunity to review NSP-MN's Reply Comments.

D. FLEXIBILITY TO ISSUE SECURITIES

As discussed earlier in these comments, NSP-MN expects the following security issuances in 2016:

- $18 million equity infusion from its parent company, Xcel Energy, Inc.;
- $250 million of long-term debt; and
- short-term debt, not to exceed 15 percent of total capitalization.

The proceeds from these issuances are expected to be used to fund NSP-MN's Utility Construction Program, invest in the utility money pool, make short-term loans to NSP-MN's Nuclear Corporation, and for other general corporation purposes.

The Company's planned issuances would allow it to maintain an appropriate capital structure and to finance its expected expenditures as described in the Company's Attachment H. Consistent with past practice, the Department has included a copy of this information from the *Petition* as DOC Attachment 4. The Department concludes that the Company's expected issuances of securities are reasonable.

E. COMPLIANCE WITH COMMISSION RULES

Beginning with the requirements listed by Minn. Rules 7825.1000 – 7825.1500, the Department's review indicates that NSP-MN has provided information relevant to the Commission's requirements.

The Department's review identified only one issue of concern. Minn. Rule 7825.1400 (O) states:

> A statement of the manner in which such securities will be issued; and if invitations for sealed written proposals (competitive bidding) are not anticipated, an explanation of the decision not to invite such proposals shall be submitted.

The Company stated in the *Petition* that it "may issue securities by competitive bid."[6] NSP-MN then explained at length the advantages of a second form of selling debt – the "negotiated sale" method. Attachment L to the *Petition* discussed the pros and cons of the two different methods for selling debt – competitive bidding and negotiated sale at some length.[7]

NSP-MN provided the following explanation of how the competitive bidding process for selling debt functions:[8]

> When a company determines that it will sell securities by competitive bid, bonds are advertised for sale. The advertisement, by way of notice of sale, includes both the terms of the sale and the terms of the bond issue. Banks bid on the bonds at a designated date and time as determined by the issuer. The bonds are awarded to the bidder offering the lowest

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[6] *Ibid* at page 17.
[7] Attachment L from the *Petition* is included as DOC Attachment 5.
[8] *Ibid* at Attachment L, page 2.

> interest cost. When a company has determined it will sell bonds by a competitive sale, it typically notifies the investment banking community of its intent to do so a few days prior to the opening of competitive bids. The investment bankers use this period to organize bidding syndicates.
>
> Once the date for the taking of bids has been announced, communication between the company and investment banks is generally restricted to questions and answers about the bidding process and the company's financial health. The issuer holds a due diligence meeting at which the bidding groups and underwriter's counsel attend.

The Company also provided a description of the negotiated sale process.[9]

> When a company seeks to sell an issue through the negotiated method it may contact investment banks and invite them to present their credentials and proposals for handling the sale. Often the company has well developed relationships with several banks and knows their record of service, distribution ability, financial expertise, secondary market making, capital and other factors that may be peculiar to the issuance. Based on these considerations, the issuer will choose the investment bankers they believe to be the best able to offer the desired level of service and underwriting capability at the lowest net cost.

The Department performed some cursory research on the differences between the competitive bid and negotiated sale approaches to selling debt. Under the competitive bid approach, the Company would attempt to have the different banks compete with one another for the Company's business.[10] Under the negotiated sale approach, the Company would develop its proposal independently and then go to the market for long-term debt to sell the debt. It appears to the Department that from NSP-MN's perspective, the competitive bid approach presents more risk to the Company in that the lowest cost bidder it selects may or may not be able to fulfill its requirements as the counter-party to the transaction. Of course, if one returns to the old financial axiom that risk and reward represent a trade-off in a market, one could also conclude that by incurring this additional risk NSP-MN could gain a reward. (In this instance, that higher reward would be lower transaction costs associated with selling the debt.)

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[9] *Ibid* at Attachment L, page 1.
[10] These banks would purchase NSP's debt and then resell it.

Under the negotiated sale approach, the Company appears to "buy" most, if not all of the services it would have to perform itself under the competitive bid approach. NSP-MN identified several of those services in the passage cited above regarding the negotiated sale process.

In DOC Information Request No. 2, the Department asked NSP-MN to provide a list of securities that the Company had sold using competitive bidding as the mechanism for selling the debt as well as a list of securities that the Company had sold using a negotiated sale approach.[11]

In its response, NSP-MN identified $250 million of debt that had been sold via competitive bid and $4,300 million ($4.3 billion) of debt that had been sold via negotiated sales. On a percentage basis, slightly more than 5 percent of its bond portfolio was competitively bid, while over 94 percent of its outstanding debt was issued using negotiated sales. Considering the issue from a chronological perspective, NSP-MN hasn't competitively bid a bond issuance for the past seventeen and a half years. Its last thirteen bond issuances have used negotiated sales as the format for selling the debt.

In DOC Information Request No. 8 the Department asked the Company if it had performed a cost benefit analysis comparing the costs and benefits of a competitively-bid issuance alternative to a negotiated issuance alternative for any of the bond issuances[12].

NSP-MN responded:

> The Company prices bonds consistent with the industry standard at the time. The Company did not perform a competitive bid on the remaining bonds in the debt portfolio for a number of reasons. The structure of the banking industry changed in the late 1990s when commercial banks were allowed to combine with investment banks; competitive bids were no longer common. With market data available in real time, the spread to treasury was observable on other transactions, and so by definition, the market was pricing the transactions in a competitive manner.

The Department's interpretation of this response is that the Company did not and has not performed cost-benefit analyses to determine whether a competitively bid process is preferable to a negotiated sale process.

[11] A copy of DOC Information Request No. 2 is included as DOC Attachment 6.
[12] A copy of DOC Information Request No 8 is included as DOC Attachment 7.

In DOC Information Request No. 3 the Department asked the Company to provide support for its statement on page 1 of Attachment L that "The company has found that a negotiated transaction adds more timing flexibility, is easier to execute, and prices in real market time are as favorable as a competitive bid."[13]

NSP-MN responded:

> The competitive bid process is uncommon in the current system of issuing utility or corporate bonds, because real-time market information is available. This real-time information includes treasury rate yields, company credit ratings, credit spreads, and bond prices on other companies that have similar credit risk. Banks, investors and the companies issuing the securities can look to this real-time market data and compare the new bond terms to comparable companies with similar risks. Because of this data transparency, the resulting bond pricing is competitive within the marketplace.

While it is true that market information is available, the Company declined to provide any analytical support for its assertion that a negotiated sale is as cost-effective as a competitively bid offering.

In DOC Information Request No. 4 the Department asked the Company to support its statement on page 2 of Attachment L – "Because the market is real-time and transparent, the bond pricing and underwriting fees are competitive and consistent with other market transactions."[14]

The Company did provide an analysis in its response (Attachment A) that concluded that the pricing for NSP-MN's August 4, 2015 bond offering was competitive and consistent with other market transactions that day. The Company concluded by stating that "Although the transaction was not conducted in a competitive bid manner, the ending price is competitive within the marketplace."

While the Department appreciates this analysis, (which was provided by one of the banks that sold those NSP-MN bonds), the Department notes that if, as NSP-MN stated in its response to DOC IR No 8, that competitively bid bond issuances are no longer common, a marketplace in which there are few or no competitive issuances would provide a somewhat skewed benchmark for this statement.

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[13] A copy of DOC Information Request No. 3 is included as DOC Attachment 8.
[14] A copy of DOC Information Request No. 4 is included as DOC Attachment 9.

Given the information provided by the Company, the Department performed some additional research on the topic. While it was difficult to find information regarding corporate bond issuances in the public domain, there was some information available on the topic as it related to municipal bond issuances.

The preponderance of the information the Department located indicated that competitive bidding produced a lower cost result than negotiated sales.[15,16] Those same sources noted however that if the bond issuance is complex in nature or there are other unusual factors, a negotiated sales approach may be warranted.

In order to determine if NSP-MN's bond issuances over the past seventeen years could have reasonably been placed in this second category, the Department asked in DOC Information Request No. 10, "Did any of the bonds issued via negotiation listed in this response [DOC IR No. 2] include innovative or unusual financing structures?"[17]

NSP-MN responded:

> There are currently just first mortgage bonds outstanding. . . .

Given this response, the Commission's stated preference for competitively bid securities issuances in the rules, and the Company's lack of support for its use of the negotiated method for selling debt, the Department concludes that the Commission should require Xcel to use competitive bidding for each of its bond issuances unless the Company can conclusively demonstrate that a negotiated sale approach is necessary due to the particulars of the bond issuance.

Taking the analysis a step further, the Department asked in DOC IR No. 9 whether the Company has a policy or protocol for selecting an underwriter for a negotiated bond issuance. The DOC also asked whether NSP-MN issued an RFP prior to each bond issuance in order to select the underwriter for that bond issuance.[18]

The Company responded:

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[15] The Department notes that this information is the result of study of the municipal bond market, not the corporate bond market.

[16] WWW.munibondadvisor.com/SaleStudies.htm summarized its analysis as concluding that "only one analytical study has ever been completed suggesting that negotiated sales have lower total interest costs than competitive sales." A copy of this summary is included as DOC Attachment 10.

[17] A copy of DOC Information Request No. 10 is included as DOC Attachment 11.

[18] A copy of DOC Information Request No. 9 is included as DOC Attachment 12.

> The Company does not have a formal policy in selecting an underwriter for a bond offering. . . . NSPM typically selects banks that provide lending support via its credit agreement to lead security offerings. With 20 banks supporting its credit agreement, NSPM rotates banks through the security issuance process. . . . The underwriting fees for banks are market standard . . .

Rotating through banks does not allow banks to compete with each other for bond issuances. Thus, in addition to the Department's recommendation that the Commission require the Company to competitively bid all standard bond issuances unless it can conclusively demonstrate a negotiated sale approach is warranted, the Department recommends that the Commission require NSP-MN to issue an RFP for services for those bond issuances that the Company has conclusively demonstrated are sufficiently complex to warrant a negotiated sales approach.

In addition, the Department asks that NSP explain the following in detail in its Reply Comments:

- the relationship between the Multi-Year Credit Agreement and the Company's protocol for the selection of the underwriter for its bond issuances,
- the extent of the linkage between the banks supporting the credit agreement and the fees those banks receive when acting as underwriters for the sale of NSP-MN's debt, and;
- any language in the "Amended and Restated Credit Agreement" dated as of October 14, 2014 that pertains to this linkage or relationship.

F. ADDITIONAL FIILNG REQUIREMENTS

1. Commission Order in Docket No. E,G999/CI-08-1416

On May 12, 2009, the Commission issued an "Order Augmenting Information Required in Connection with Securities Issuances and Annual Capital Structure Filings" (Docket No. E,G999/CI-08-1416).[19] Points 1 and 3 of the Order state, respectively:

> 1. In addition to the information currently provided, the utilities' annual capital structure filings shall include an exhibit providing a general projection of capital needs, projected expenditures, anticipated sources, and anticipated timing, with the understanding that such

[19] These Ordering Points have been included in subsequent capital structure Orders.

exhibit is not intended to require dollar-for-dollar on the uses identified in the exhibit or to limit issuances to project-specific financing. The exhibit need not list short-term, recurring security issuances.

3. Starting with the utilities' next annual capital structure filings, the utilities shall include a report of actual issuances and uses of the funds from the prior year. The report will be for information purposes only and need not cover short-term, recurring security issuances.

a. *Point 1*

NSP-MN's Attachment N (DOC Attachment No. 13) provides the general projections of capital needs and expenditures as required by Point 1 of the Commission's May 12 Order. NSP-MN projects approximately $1,182 million investment in 2016. This forecasted expenditure includes investments in nuclear projects, energy supply, transmission projects and distribution system improvements. NSP-MN's Attachment H (DOC Attachment No. 4) provides the estimated funding sources of equity, long-term debt, short-term debt and internal funds (retained earnings financing) for 2016. Attachment H also provides the uses of the funding sources. Attachment N provides projections of NSP-MN's expenditures over the period 2016 through 2020 (DOC Attachment No. 13).

Based on the above discussion and its review of Xcel's petition, the DOC concludes that Xcel's petition complies with the requirements of Point 1 of the Commission's May 2009 Order. The Department discusses below information about nuclear costs indicated in Attachment N.

b. Point 3

Regarding Point 3 of the Commission's May 12, 2009 Order, the Company summarized its issuance activities in 2014 in Attachment H of the *Petition* as follows (DOC Attachment No. 4):

- Equity Infusion: $95 million;
- Long-Term Debt: $300 million; and
- Short-term debt/Internal Funds: $769 million.

The proceeds from the equity infusion, long-term debt, short-term debt and internal funds were used to maintain an appropriate capital structure, to finance the Company's investments in 2014, and to refinance outstanding long-term debt.

A comparison between the actual and projected 2014 uses is provided in the Company's Attachment N (DOC Attachment 13). As noted earlier, Attachment H (DOC Attachment No. 4) provides the Company's actual issuances in 2014.

For 2014, the Company received equity infusion of $95 million and issued $300 million of long-term debt (Issuance date: May 13, 2014. Issuance terms: $300 million with 30-year maturity at 4.125% interest rate). The proceeds from the loan were used to pay outstanding short-term debt.

The Company's Attachment N also provides a comparison of projected versus actual expenditures for 2015. Expenditures are divided into five general categories: Energy Supply, Nuclear, Distribution, Transmission and Other. Table 2 summarizes this information.

Table 2 – Comparison of 2015 NSP-MN Capital Investment

Project Category	2015 Projection	2015 Year-End Estimate	Nominal Variance (Millions of $)	Percentage Variance (%)
Energy Supply	673.6	772.9	99.3	14.7% higher
Nuclear	273.7	283.8	10.1	3.7% higher
Distribution	291.7	301.2	9.5	3.3% higher
Transmission	286.3	291.4	5.0	1.7% higher
Other	98.8	120.5	21.7	22.0% higher
Total	1,624.1	1,769.7	145.6	9.0% higher

The only significant deviations from projected expenditures were in the Energy Supply and "Other" categories (where "significant" is defined as 10 percent above or below budget). The Company noted in its Attachment N that the cost increase associated with the Energy Supply category was the result of the expenses from the Courtenay wind project.[20] NSP-MN also explained that the main reason for the increase in the actual expenditure for the "Other" category was a shift in costs from 2014 to 2015 for the Productivity through Technology project.

While the Nuclear project cost category overall did not appear to vary significantly from estimated, the Department noted significant offsetting variances in two subcategories within the Nuclear category, as shown in Table 3 below.

[20] See *Order Approving Acquisition under Minn. Stat. § 216B.1645, Subd. 2a and Authorizing Cost Recovery* in Docket No. E002/M-15-401.

Table 3 – Comparison of 2015 Forecasted NSP-MN Nuclear Capital Investment

Project	2015 Projection	2015 Year-End Estimate	Nominal Variance (Million of $)	Percentage Variance (%)
PI Unit 2 Generator Replacement	0.0	-3.9	-3.9	Not Applicable
PI Extended Power Uprate and LCM	52.6	19.1	-33.5	63.7% lower
Monticello Extended Power Uprate and LCM	0.0	3.5	3.5	Not Applicable
Nuclear Fuel	90.4	91.4	1.0	1.1% higher
Other Nuclear	130.7	173.6	42.9	32.8% higher
Total	273.7	283.8	10.1	3.7% higher

The information in Table 3 suggests that NSP-MN experienced significantly higher costs than expected in the "Other Nuclear" subcategory during the year. These significantly higher costs were offset by what appear to be lower costs for the "Prairie Island Extended Power Uprate and LCM" project. However, NSP-MN indicated that the additional $33.4 million in project costs were delayed until 2018. The Department requests that NSP-MN indicate in its Reply Comments why the "timing of the Prairie Island Unit 1 Life Cycle Management Generator Replacement project was moved from 2015 to 2018" as stated in the Company's Attachment N of the petition.

However, based on its review of NSP-MN's petition, the DOC concludes that the Company's petition complies with Point 3 of the Commission's May 12, 2009 Order.

2. Commission Order in Docket No. E,G002/S-09-1161

On January 15, 2010, the Commission issued an Order in NSP-MN's petition for approval of its capital structure for issuance of securities. Point 2 of the Commission's Order states:

> The Company shall develop and use in its next annual securities filing, a schedule showing, for various time periods, the planned investment for each project.

The *Petition* includes Attachment N, which shows NSP-MN's projected investment by project for each of the years 2016 through 2020. Based on its review of the Company's Attachment N, the DOC concludes that the Company's filing complies with the requirements of Point 2 of the Commission's January 15, 2010 Order in Docket No. E,G002/S-09-1161.

G. PERMISSION TO USE RISK-MANAGEMENT INSTRUMENTS

The Company requested that the Commission continue to allow the Company to use risk-management instruments when appropriate to manage price, duration, or interest-rate risk on securities. The DOC concludes that it is reasonable to allow the Company the flexibility to use these instruments provided that they are consistent with the goal of ensuring that costs are reasonable. The Company's use of the instruments should also be consistent with NSP-MN's corporate risk-management policy and required officer approvals. Only instruments that qualify for hedge accounting treatment under ASC No. 815 should be considered.

IV. RECOMMENDATIONS

The Department has requested that NSP-MN address the following issues in its Reply Comments:

- the purpose(s) that the NSP Nuclear Corporation serves and the advantages and disadvantages of having NSP Nuclear Corporation structured as a first-tier subsidiary as opposed to being treated similarly to NSP-MN's other generation facilities;
- the relationship between the Multi-Year Credit Agreement and the Company's protocol for the selection of the underwriter for its bond issuances;
- the extent of the linkage between the banks supporting the credit agreement and the fees those banks receive when acting as underwriters for the sale of NSP-MN's debt; and
- any language in the "Amended and Restated Credit Agreement" dated as of October 14, 2014 that pertains to this linkage or relationship;
- why the "timing of the Prairie Island Unit 1 Life Cycle Management Generator Replacement project was moved from 2015 to 2018".

The DOC will provide its final recommendations to the Commission in a set of Supplemental Comments once it has had an opportunity to review NSP-MN's Reply Comments.

/ja

DOC Attachment 1 – List of Attachments

1. DOC Attachment 1 – List of Attachments
2. DOC Attachment 2 – DOC Comparable Group Capital Structure Analysis
3. DOC Attachment 3 – Attachment C of the filing
4. DOC Attachment 4 – Attachment H of the filing
5. DOC Attachment 5 – Attachment L of the filing
6. DOC Attachment 6 - DOC Information Request No. 2
7. DOC Attachment 7 – DOC Information Request No. 8
8. DOC Attachment 8 – DOC Information Request No. 3
9. DOC Attachment 9 – DOC Information Request No. 4
10. DOC Attachment 10 – Summary of Studies Pertaining to Competitive and Negotiated Bond Sales from www.munibondadvisor.com website.
11. DOC Attachment 11 – DOC Information Request No. 10
12. DOC Attachment 12 – DOC Information Request No. 9
13. DOC Attachment 13 – Attachment N of the filing

NSP-MN Comparable Group Capital Structure Analysis

Line No.	Company	S&P Debt Rating	Long Term Debt	Short Term Debt	Common Equity	Preferred Stock	Total Cap Structure %
1.	BLACK HILLS CORP	BBB	51.91	2.52	45.56	0.000	100.0
2.	CLECO CORP	BBB+	45.67	0.00	54.33	0.000	100.0
3.	DOMINION RESOURCES	BBB	61.80	7.40	30.81	0.000	100.0
4.	EDISON INTERNATIONAL	BBB+	43.41	5.12	43.46	8.017	100.0
5.	EL PASO ELECTRIC CO	BBB	53.50	0.68	45.82	0.000	100.0
6.	EMPIRE DISTRICT ELECTRIC CO	BBB	49.27	2.70	48.03	0.000	100.0
7.	ENTERGY CORP	BBB	55.18	2.46	41.11	1.252	100.0
8.	EXELON CORP	BBB	48.39	1.02	50.16	0.428	100.0
9.	FIRSTENERGY CORP	BBB-	58.42	5.26	36.32	0.000	100.0
10.	GREAT PLAINS ENERGY INC	BBB+	45.72	6.96	46.81	0.509	100.0
11.	HAWAIIAN ELECTRIC INDS	BBB	48.03	3.18	47.87	0.916	100.0
12.	IDACORP INC	BBB	44.85	0.90	54.26	0.000	100.0
13.	NEXTERA	A-	49.79	9.52	40.69	0.000	100.0
14.	OTTER TAIL CORP	BBB	46.06	1.02	52.92	0.000	100.0
15.	PEPCO HOLDINGS INC	BBB+	45.38	11.37	42.00	1.254	100.0
16.	PINNACLE WEST CAPITAL CORP	BBB+	38.23	6.70	55.08	0.000	100.0
17.	PNM RESOURCES INC	BBB	43.06	11.50	45.14	0.302	100.0
18.	PORTLAND GENERAL ELECTRIC CO	BBB	48.19	8.50	43.31	0.000	100.0
19.	PPL CORP	BBB	53.14	8.46	38.40	0.000	100.0
20.	SOUTHERN COMPANY	A	44.77	9.48	42.85	2.904	100.0
21.	UIL	BBB	53.90	3.01	43.09	0.004	100.0
22.	**Comparable Group Average 12/31/2014**		**48.98**	**5.13**	**45.14**	**0.74**	**100.0**
23.	Standard Deviation		5.59	3.72	6.17	1.81	
24.	Minimum		38.23	0.00	30.81	0.00	
25.	Maximum		61.80	11.50	55.08	8.02	
26.	**NSP-MN Proposed 12/31/2016 Cap Structure**		**46.90**	**1.00**	**52.10**	**0.00**	**100.0**
27.	Difference from Comparable Group Average		-2.08	-4.13	6.96	-0.74	
28.	**NSP-MN Proposed Maximum 2016 Cap Structure**		**45.90**	**2.70**	**51.30**	**0.00**	**99.90**
29.	Difference from Comparable Group Average		-3.08	-2.43	6.16	-0.74	

Source: Compustat Data Base November 30,2015

NSP-MN 2016 Annual Capital Structure Filing
Report on Use of Multi-Year Credit Facilities

Background

On October 14, 2014 NSP-MN executed its current $500 million multi-year credit agreement as a result of amending and extending the July 27, 2012 agreement. The October 14, 2014 agreement extends the term of the base agreement to October 14, 2019 and allows NSP-MN to continue to realize the favorable terms and credit fees it gained in the July 27, 2012 agreement. The October 14, 2014 agreement provides for the future flexibility to extend the life or upsize the amount of the facility.

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 (the "2005 Capital Structure Order"). The 2005 Capital Structure Order, and the subsequent capital structure orders, in exchange for allowing multi-year agreements to be treated as short-term debt, required the Company to report on the use of such facilities. Under the current requirements in the 2015 Capital Structure Order, this report needs to include: how often they are used, the amount involved, the rates and financing costs, and the intended uses of the financing.

The Intended Use and How Often the Facility is Used

The current 5-year revolving credit facility will continue to be used primarily for commercial paper back-up but can also provide for direct borrowings from the banks which directly support the credit agreement. The credit agreement also serves as liquidity back-up for letters of credit the Company may issue. Please see Attachment C, Page 3 for direct borrowings under the credit facility during the last 3 years. As shown on Page 3, there were no direct borrowings under the multi-year credit facility between January 2013 and August 2015. During this time the Company utilized its commercial paper program. The last time the Company borrowed directly from the banks that support the credit agreement was in November 2008 and December 2008 due to the lack of liquidity in the short-term debt markets. The Company no longer provides short-term liquidity to NSP-Wisconsin as NSP-Wisconsin initiated its own commercial paper program in March 2011.

Amount Involved, Rates and Financing Costs

See Attachment C, page 3 for this information.

Advantages of Multi-Year Credit Facilities

Some advantages of the current multi-year facility include:

- Up-front fees are amortized over multiple years, rather than 12 months (as with the 364-day facility).
- Reduces potential increased costs associated with roll-over risk. By locking in favorable borrowing rates and commitment fees for multiple years, the Company avoids the risk of market conditions on an annual basis.
- Most multi-year facilities have options to increase the size or extend the maturity, allowing for financing flexibility through the credit facility term.
- The Company can terminate the facility prior to its maturity and re-syndicate if even more favorable market pricing exists.

NSPMN 2016 Annual Capital Structure Filing
Report on Use of Multi-Year Credit Facility - Direct Borrowings
January 2013 to August 2015

Note: There have been no direct bank borrowings under the multi-year credit facility since December of 2008.
NSP-MN uses it credit agreement primarily as a back up facility for its commercial paper program.

2013	Credit Facility 1/	Avg. Direct Borrowings) 2/	Interest-only Rate %	Monthly Interest Expense $	Monthly Credit Facility Fees	Monthly Cost Amortization 3/	Total Interest + Fee + Amort.
January	500,000,000	$0	0.000%	$0	$52,722	$44,678	$97,400
February	500,000,000	$0	0.000%	$0	$47,620	$40,563	$88,183
March	500,000,000	$0	0.000%	$0	$52,635	$42,524	$95,159
April	500,000,000	$0	0.000%	$0	$50,024	$41,152	$91,176
May	500,000,000	$0	0.000%	$0	$51,542	$42,524	$94,066
June	500,000,000	$0	0.000%	$0	$50,506	$41,152	$91,658
July	500,000,000	$0	0.000%	$0	$52,620	$43,774	$96,394
August	500,000,000	$0	0.000%	$0	$52,539	$43,774	$96,313
September	500,000,000	$0	0.000%	$0	$50,884	$42,362	$93,246
October	500,000,000	$0	0.000%	$0	$52,539	$43,774	$96,313
November	500,000,000	$0	0.000%	$0	$50,817	$42,401	$93,218
December	500,000,000	$0	0.000%	$0	$52,109	$43,773	$95,882
Weighted Average			0.000%				
Total				$0	$616,559	$512,449	$1,129,008
			Weighted Average Rate on Borrowings		**Fees as % of**	**Aggregate Credit Line**	
2013 Cost	**500,000,000**		**0.000%**		**0.23%**	500,000,000	**4/**

2014	Credit Facility 1/	Avg. Direct Borrowings) 2/	Interest-only Rate %	Monthly Interest Expense $	Monthly Credit Facility Fees	Monthly Cost Amortization 3/	Total Interest + Fee + Amort.
January	500,000,000	$0	0.000%	$0	$51,787	$43,788	$95,575
February	500,000,000	$0	0.000%	$0	$37,437	$39,659	$77,096
March	500,000,000	$0	0.000%	$0	$41,430	$43,773	$85,203
April	500,000,000	$0	0.000%	$0	$39,705	$42,388	$82,092
May	500,000,000	$0	0.000%	$0	$40,999	$43,774	$84,773
June	500,000,000	$0	0.000%	$0	$39,676	$42,402	$82,078
July	500,000,000	$0	0.000%	$0	$40,998	$42,523	$83,521
August	500,000,000	$0	0.000%	$0	$40,998	$42,523	$83,521
September	500,000,000	$0	0.000%	$0	$39,675	$41,152	$80,827
October	500,000,000	$0	0.000%	$0	$40,998	$44,193	$85,191
November	500,000,000	$0	0.000%	$0	$39,675	$38,751	$78,426
December	500,000,000	$0	0.000%	$0	$40,998	$40,281	$81,279
Weighted Average			0.000%				
Total				$0	$494,375	$505,207	$999,582
			Weighted Average Rate on Borrowings		**Fees as % of**	**Aggregate Credit Line**	
2014 Cost	**500,000,000**		**0.000%**		**0.20%**	500,000,000	**4/**

2015	Credit Facility 1/	Avg. Direct Borrowings) 2/	Interest-only Rate %	Monthly Interest Expense $	Monthly Credit Facility Fees	Monthly Cost Amortization 3/	Total Interest + Fee + Amort.
January	500,000,000	$0	0.000%	$0	$40,984	$40,291	$81,275
February	500,000,000	$0	0.000%	$0	$37,018	$36,513	$73,531
March	500,000,000	$0	0.000%	$0	$40,984	$40,291	$81,275
April	500,000,000	$0	0.000%	$0	$39,497	$38,949	$78,446
May	500,000;000	$0	0.000%	$0	$40,765	$50,139	$90,904
June	500,000,000	$0	0.000%	$0	$39,462	$39,032	$78,494
July	500,000,000	$0	0.000%	$0	$40,778	$40,291	$81,069
August	500,000,000	$0	0.000%	$0	$40,778	$40,291	$81,069
September	500,000,000						
October	500,000,000						
November	500,000,000						
December	500,000,000						
Weighted Average			0.000%				
Total				$0	$320,267	$325,796	$646,063
			Weighted Average Rate on Borrowings		**Fees as % of**	**Aggregate Credit Line**	
2015 Cost	**500,000,000**		**0.000%**		**0.19%**	500,000,000	**4/ & 5/**

1/ Credit facilities in place include the July 27, 2012 5-year agreement from July 27, 2012 through October 13, 2014. The current five-year agreement dated October 14, 2014, was an extension of the 2012 agreement with minor amendments. NSP-MN may resyndicate its credit agreement to amend, extend or due t expiration of an existing agreement.

2/ Avg. Direct Borrowings are the average of daily outstanding direct borrowings under the credit facility.

3/ Actual credit facility fees recorded on NSPM's books include amortization of one-time up-front costs, and ongoing annual administrative fees.

4/ In March 2011, NSPM resyndicated a new facility for $500M and NSPW executed its own $150M facility. Both were amended/extended in July 20 and October 2014.

5/ 2015 fees as % of aggregate credit line have been pro-rated for the entire year.

NORTHERN STATES POWER COMPANY - MINNESOTA

2016 Capital Structure Financing Assumptions
($ in Thousands)

	Jul-Dec 2015	Jan-Dec 2016
Sources:		
Financings: Long Term		
Equity Infusions	$230,000	$18,000
Long-Term Debt Issuances	$600,000 a)	$250,000 b)
Subtotal	$830,000	$268,000
Uses:		
Retirements/Redemptions		
Long-Term Debt	$250,000	$0
Subtotal	$250,000	$0
Net Financings		
Equity Infusions	$230,000	$18,000 c)
Long-Term Debt	$350,000	$250,000
Total	$580,000	$268,000
Uses:		Millions d)
2016 Utility Capital Requirements		
Energy Supply		$325.2
Nuclear		$277.8
Distribution		$294.8
Transmission		$157.0
Other		$127.3
Total-NSP Minnesota		$1,182.1
Short-Term Debt/Internal Funds		$914 e)

(a) The Company issued $600 million in bonds in August 2015.
(b) The Company forecasts a bond issue in 2nd Quarter 2016 of up to $250 million.
(c) To maintain target capital structure ratios, the Company receives planned equity infusions from its parent company, Xcel Energy Inc.
(d) 2nd qtr 2016 Budget Information (greater detail provided in Attachment N).
(e) Capital expenditures will be financed with a combination of the $268 million net financings, and $914 million short-term debt/internal funds.

Please see Attachment M for monthly forecast source and use, and Attachment N for capital expenditure detail.

Issuance and Use of Funds from the Prior Year (2014)

Comments:

1) In 2014 the Company issued $300 million of FMBs.

2) The Company received $95 million in equity from its parent during 2014.
This equity is used to re-balance the capital structure to maintain its target equity ratio, repay short term debt and fund utility capital expenditures.

3) The Company retired $0 of long-term debt in 2014.
4) The Company spent approximately $1.2 billion on capital expenditures in 2014.
5) The Company used approximately $769 million internal funds/short-term debt to help finance capital expenditures.

$Millions **Financings**		2014 Year
Issuance: Long Term Financings		
1)	Long-Term Debt Issuances	$300.0
2)	Equity Infusions	$95.0
	Subtotal	$395.0
Use: Retirements/Redemptions		
3)	Long-Term Debt	$0.0
Net Financings		**$395.0**
Utility Capital Requirements		
Energy Supply		$132.9
Nuclear		$337.3
Distribution		$263.9
Transmission		$342.8
Other		$87.0
4)	Total-NSP Minnesota	$1,163.9
5)	**Short-Term Debt/Internal Funds**	**$768.9**

COMPETITIVE AND NEGOTIATED SALES

Issuing large amounts of new securities can be accomplished through either negotiated or competitive underwritings. An underwriting is an agreement on the part of an investment bank with an issuer to accept the risk of selling the securities in question.

The Company has used both methods to sell securities, however negotiated sales have been most prevalent. A negotiated sale provides the company with the most timing flexibility during volatile market conditions. The underwriters fees are known and consistent across the financial markets given the term and structure of the security. The credit spread applied to the benchmark U.S. Treasury bond is based on recent spreads for other comparably rated companies and company specific issues. Market data and pricing information for similar transactions is readily available. The company has found that a negotiated transaction adds more timing flexibility, is easier to execute, and prices in real market time are as favorable as a competitive bid.

Please see a brief description of the negotiated and competitive bid process below.

<u>Negotiated Sale</u>

When a company seeks to sell an issue through the negotiated method it may contact many investment banks and invite them to present their credentials and proposals for handling the sale. Often the company has well developed relationships with several banks and knows their record of service, distribution ability, financial expertise, secondary market making, capital and other factors that may be peculiar to the issuance. Based on these considerations, the issuer will choose the investment bankers that they believe to be the best able to offer the desired level of service and underwriting capability at the lowest net cost.

Once a company has selected the investment bank(s), the bank and the issuer work together to design and structure the issue. The investment bank will then undertake a wide range and in-depth presale effort. From this effort, investor interest is created and security prices can be developed. In a strong market, it is common for the proposed utility bonds to be oversubscribed, which allows the underwriter to tighten the credit spread to achieve an optimum interest rate for the company while maintaining a solid investor base. In a volatile market where there is less demand, less than 100% of the issue may be may be pre-sold. The underwriter retains some risk in the negotiated sale because its customers are free to change their minds until the time of their purchase.

A negotiated sale provides the company with options for large bond offerings, innovative structure or security, and market volatility requiring timing flexibility. Because the market is real-time and transparent, the bond pricing and underwriting fees are competitive and consistent with other market transactions.

Competitive Bidding

When a company determines that it will sell securities by competitive bid, bonds are advertised for sale. The advertisement, by way of notice of sale, includes both the terms of the sale and the terms of the bond issue. Banks bid on the bonds at a designated date and time as determined by the issuer. The bonds are awarded to the bidder offering the lowest interest cost. When a company has determined it will sell bonds by a competitive sale, it typically notifies the investment banking community of its intent to do so a few days prior to the opening of competitive bids. The investment bankers use this period to organize bidding syndicates.

Once the date for the taking of bids has been announced, communication between the company and investment banks is generally restricted to questions and answers about the bidding process and the company's financial health. The issuer holds a due diligence meeting at which the bidding groups and underwriter's counsel attend.

Because sales persons for the various underwriter groups are not assured of having the bonds to sell, they cannot spend much time either learning about the company or pre-selling the securities between the announcement of the bidding date and the actual bidding date. Furthermore, even if a bidding firm attempted to do so, institutional buyers are not willing to listen in detail to the sales people because there is no assurance that the securities will be available from that underwriter until the competitive bid is awarded to a syndicate. The risk of not having a firm market price is reflected in the underwriters' bids. Because of this and the transparency of real-time market data, competitive bidding is much less common than in the past.

Summary

There are times and conditions when either the competitive bidding process or a negotiated selling process should be selected to minimize the cost of selling securities. The Company has used both methods to sell securities. It is in the best interests of both the ratepayers and the shareholders of the issuer to minimize the total cost of security issuance. It is management's responsibility to use its best judgment to see that these interests are best served.

☐ **Non Public Document – Contains Trade Secret Data**
☐ **Public Document – Trade Secret Data Excised**
☒ **Public Document**

Xcel Energy			
Docket No.:	EG002/S-15-948		
Response To:	Department of Commerce	Information Request No.	2
Requestor:	John Kundert		
Date Received:	November 18, 2015		

Question:

Reference: Attachment L, Page 1

a. Please provide a list of securities the Company has sold using competitive bidding.
b. Please provide a list of securities the Company has sold using negotiated sales.

Response:

a. Northern States Power Minnesota ("NSPM" or "the Company") has one bond in its current portfolio that was issued under competitive bid.

Principal	Issue Date	Maturity	Coupon
250,000,000	7/7/1995	7/1/2025	7.125%

Bids were collected from five different banks for this bond issued in 1995.

b. All other bonds in the Company debt portfolio are considered negotiated in that the banks selling the bonds are identified prior to the sale.

NSP Minnesota First Mortgage Bonds

Principal	Issue Date	Maturity	Coupon
150,000,000	3/11/1998	3/1/2028	6.500%
250,000,000	7/21/2005	7/15/2035	5.250%
400,000,000	5/25/2006	6/1/2036	6.250%
350,000,000	6/26/2007	7/1/2037	6.200%

Principal	Issue Date	Maturity	Coupon
500,000,000	3/18/2008	3/1/2018	5.250%
300,000,000	11/17/2009	11/1/2039	5.350%
250,000,000	8/11/2010	8/15/2040	4.850%
300,000,000	8/13/2012	8/15/2022	2.150%
500,000,000	8/13/2012	8/15/2042	3.400%
400,000,000	5/20/2013	5/15/2023	2.600%
300,000,000	5/13/2014	5/15/2044	4.125%
300,000,000	8/11/2015	8/15/2020	2.200%
300,000,000	8/11/2015	8/15/2045	4.000%

Preparer: Mary Schell
Title: Director, Corporate Financial Policy
Department: Corporate Finance/Treasury/CFO
Telephone: 612-215-5362
Date: November 30, 2015

☐ **Non Public Document – Contains Trade Secret Data**
☐ **Public Document – Trade Secret Data Excised**
☒ **Public Document**

Xcel Energy			
Docket No.:	E,G002/S-15-948		
Response To:	Department of Commerce	Information Request No.	8
Requestor:	John Kundert		
Date Received:	December 8, 2015		

<u>Question:</u>

Reference: Response to DOC Information Request No. 2

a. Please provide the issuance costs associated with the competitively-bid $250,000,000 bond issuance dated July 7, 1995 identified in the Company's response in subpart (a) of this information request.

b. Please provide the issuance costs associated with each of the "negotiated" bond issuances listed in the Company's response to subpart (b) of this information request response.

c. Did the Company perform a cost/benefit analysis comparing the costs and benefits of a competitively-bid issuance alternative to a negotiated issuance alternative for any of the bond issuances listed in the Company's response to subpart (b)?

    a. If so, please provide these cost/benefit analyses.
    b. If not, why doesn't the Company perform an analysis of this type?

<u>Response:</u>

a. As noted in Attachment A to this response, which is a trade confirmation dated June 28, 1995, the total underwriting fees were $6.60 per $1000 bond. For 250,000 bonds, the total underwriting fees were $1.65 million or 66 basis points of the principal amount. The portion that was being competitively bid was the basis point spread over the benchmark treasury, or 60 basis points as shown on Attachment A. Consistent with industry standard, the competitive bid was for the credit spread to treasury and not for the underwriting fees.

b. The remaining bonds in the NSPM debt portfolio were not competitively bid, and the underwriting fees are the standard market fees based on the term of the bond issued: 65 basis points for a 10 year bond and 87.5 basis points for a 30 year bond.

Note: our response to DOC Information Request No. 2, Parts a. and b., in this docket include the underwriting fees. Other expenses associated with issuing bonds include legal expenses, audit, mortgage registration tax, rating agency fees etc. In general, the full cost of the bond including underwriting fees and other expenses are approximately 100 to 125 basis points of the principal amount. These expenses increase with time as tax rates, legal costs per hour, rating agency and audit fees have increased over the years.

c. The Company prices bonds consistent with the industry standard at the time. The Company did not perform a competitive bid on the remaining bonds in the debt portfolio for a number of reasons. The structure of the banking industry changed in the late 1990s when commercial banks were allowed to combine with investment banks; competitive bids were no longer common. With market data available in real time, the spread to treasury was observable on other transactions, and so by definition the market was pricing transactions in a competitive manner.

Preparer:	Mary Schell
Title:	Director, Corporate Financial Policy
Department:	Treasury/Finance/CFO
Telephone:	612-215-5362
Date:	December 18, 2015

Capital Markets

PaineWebber Incorporated
1285 Avenue of the Americas
New York, NY 10019
212 713-2000

PaineWebber

To: Michelle Bishop
Northern States Power Company

From: Peter Masco
Andy Collens

Date: June 28, 1995

Subject: 7.125% First Mortgage Bonds due 7/1/25

TRADE CONFIRMATION MEMORANDUM

Principal Amount	$250,000,000
Maturity	7/1/25
Offering Date	6/28/95
Settlement Date	7/7/95
Accrual Date	7/1/97
Coupon	7.125%
Underwriting Discount (per $1,000 Bond)	
Combined Management and Underwriting Fee	$0.60
Selling Concession	$3.50
Reallowance	$2.50
Initial Public Offering Price	99.068
Investor Yield to Maturity	7.201%
Spread Over Benchmark Treasury	60 basis points
Benchmark Treasury Rate	6.601%
Price to Company	98.658
Net Interest Cost	7.235%

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☐ **Public Document – Trade Secret Data Excised**
☒ **Public Document**

Xcel Energy			
Docket No.:	EG002/S-15-948		
Response To:	Department of Commerce	Information Request No.	3
Requestor:	John Kundert		
Date Received:	November 18, 2015		

Question:

Reference: Attachment L, Page 1 – The Company states: "The company has found that a negotiated transaction adds more flexibility, is easier to execute, and price in real market time areas favorable as a competitive bid."

Please provide the analysis that supports this statement, particularly as it relates to pricing the securities

Response:

The competitive bid process is uncommon in the current system of issuing utility or corporate bonds, because real-time market information is available. This real-time information includes treasury rate yields, company credit ratings, credit spreads, and bond prices on other companies that have similar credit risk. Banks, investors and the companies issuing the securities can look to this real-time market data and compare the new bond terms to comparable companies with similar risks. Because of this data transparency, the resulting bond pricing is competitive within the marketplace.

Preparer:	Mary Schell
Title:	Director, Corporate Financial Policy
Department:	Corporate Finance/Treasury/CFO
Telephone:	612-215-5362
Date:	November 30, 2015

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Xcel Energy			
Docket No.:	EG002/S-15-948		
Response To:	Department of Commerce	Information Request No.	4
Requestor:	John Kundert		
Date Received:	November 18, 2015		

Question:

Reference: Attachment L, Page 2 – "Because the market is real-time and transparent, the bond pricing and underwriting fees are competitive and consistent with other market transactions."

a. Please define the phrase "other market transactions".
b. Please provide the analysis that supports this statement.

Response:

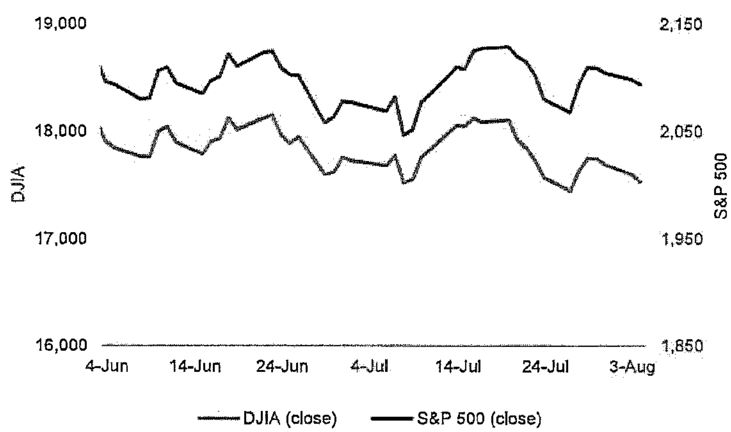
a. "Other market transactions" refers to other companies that are pricing debt in the market on the same day that the Company is pricing.

b. Attachment A to this response shows market conditions and the other transactions on August 4, 2015, the day that NSPM priced its 2015 debt securities. Page 1 shows the market backdrop for that day and the prices at which NSPM's 30-year bond issued in 2014 was trading as well as other bond spreads on the secondary market. This information is one of the factors considered for terms of a new bond. Page 2 shows NSPM's pricing on August 4, 2015 and the other market transactions that priced the same day. In addition, the commentary states that NSPM had the largest orderbook oversubscription and the lowest new-issue concession of all the transactions that priced that day. This information was provided by one of the banks that sold the NSPM bonds to investors on the Company's behalf and demonstrates that the pricing for the NSPM was competitive and consistent with other market transactions. Although the transaction was not conducted in a competitive bid manner, the ending price is competitive within the marketplace.

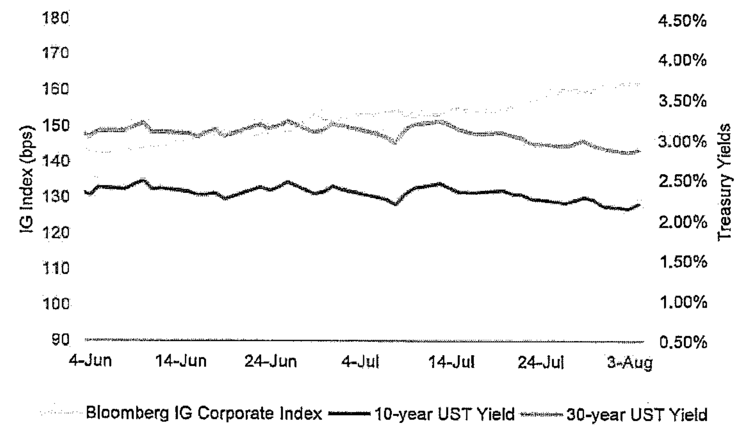
Preparer: Mary Schell
Title: Director, Corporate Financial Policy
Department: Corporate Finance/Treasury/CFO
Telephone: 612-215-5362
Date: November 30, 2015

Market Backdrop on August 4, 2015

EQUITY INDICES



U.S. TREASURY YIELDS AND CREDIT SPREADS



ECONOMIC RELEASES

Date	Time	Event	Period	Survey	Actual	Prior	Revised
3-Aug	08:30	Personal Income	Jun	0.3%	0.4%	0.5%	0.4%
3-Aug	08:30	Personal Spending	Jun	0.2%	0.2%	0.9%	0.7%
3-Aug	08:30	Real Personal Spending	Jun	0.0%	0.0%	0.6%	0.4%
3-Aug	08:30	PCE Deflator MoM	Jun	0.2%	0.2%	0.3%	–
3-Aug	08:30	PCE Deflator YoY	Jun	0.2%	0.3%	0.2%	–
3-Aug	08:30	PCE Core MoM	Jun	0.1%	0.1%	0.1%	–
3-Aug	08:30	PCE Core YoY	Jun	1.2%	1.3%	1.2%	1.3%
3-Aug	09:45	Markit US Manufacturing PMI	Jul	53.8	53.8	53.8	–
3-Aug	10:00	Construction Spending MoM	Jun	0.6%	0.1%	0.8%	1.8%
3-Aug	10:00	ISM Manufacturing	Jul	53.5	52.7	53.5	–
3-Aug	10:00	ISM Prices Paid	Jul	49.00	44.00	49.50	–
3-Aug	15:17	Wards Total Vehicle Sales	Jul	17.20M	17.46M	17.11M	–
3-Aug	15:17	Wards Domestic Vehicle Sales	Jul	13.50M	13.92M	13.34M	–
4-Aug	09:45	ISM New York	Jul	–	68.80	63.10	–
4-Aug	10:00	Factory Orders	Jun	1.8%	1.8%	-1.0%	-1.1%
4-Aug	10:00	Factory Orders Ex Trans	Jun	–	0.5%	0.1%	-0.1%
4-Aug	10:00	IBD/TIPP Economic Optimism	Aug	47.8	46.9	48.1	–

Source: Bloomberg, MUFG

RELATIVE VALUE

Issuer	Security	Rating	UST+	G-Sprd	$ Px
Northern States Power (MN)	**XEL 4.125% 5/44**	**Aa3 / A**	**113 bps**	**120 bps**	**101.9**
Public Service Co of Colorado	**XEL 2.9% 5/25**	**A1 / A**	**98 bps**	**98 bps**	**98.0**
Public Service Co of Colorado	**XEL 4.3% 3/44**	**A1 / A**	**121 bps**	**129 bps**	**103.4**
Southern California Gas Co	SRE 1.55% 6/18	Aa2 / A+	53 bps	56 bps	100.1
Southern California Gas Co	SRE 3.2% 6/25	Aa2 / A+	90 bps	92 bps	101.2
Duke Energy Carolinas	DUK 3.75% 6/45	Aa2 / A	114 bps	116 bps	95.3
Public Service Electric & Gas	PEG 2% 8/19	Aa3 / A	42 bps	70 bps	100.2
Public Service Electric & Gas	PEG 3% 5/25	Aa3 / A	96 bps	96 bps	99.0
Public Service Electric & Gas	PEG 4.05% 5/45	Aa3 / A	114 bps	118 bps	100.5
DTE Electric Co	DTE 3.375% 3/25	Aa3 / A	95 bps	99 bps	102.1
DTE Electric Co	DTE 3.7% 3/45	Aa3 / A	114 bps	116 bps	94.4
Unilever Capital Corp	UNANA 2.1% 7/20	A1 / A+	61 bps	61 bps	99.8

Xcel Energy

Investment Grade Supply

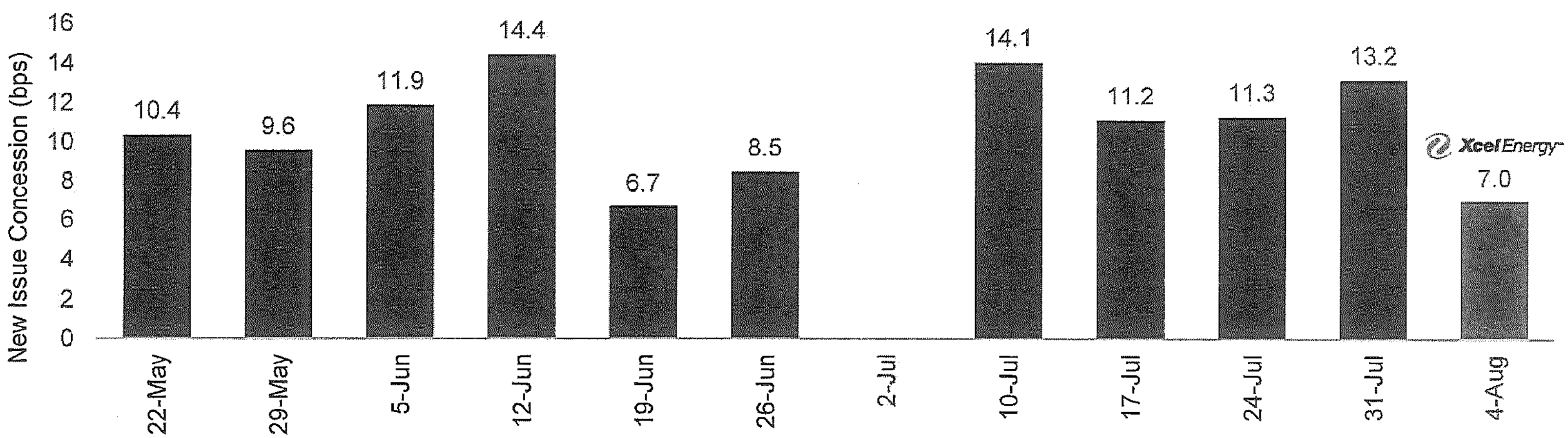
TRANSACTIONS PRICED ON THE SAME DAY

NSP-MN had the largest orderbook oversubscription and lowest new issue concession of all the transactions that priced on 8/4/15

Issue Date	Issuer	Moody's	S&P	Amount (mm)	Coupon	Maturity	Issue Spread	New Issue Concession (bps)	Total Book Size (mm)
04-Aug-15	Northern States Power Company of Minnesota	Aa3	A	$300	2.200%	15-Aug-20	+65	n/a	2,100 (3.5x)
04-Aug-15	Northern States Power Company of Minnesota	Aa3	A	$300	4.000%	15-Aug-45	+120	+7	
04-Aug-15	3M Co.	Aa3	AA-	$450	1.375%	07-Aug-18	+38	+13	3,600 (2.4x)
04-Aug-15	3M Co.	Aa3	AA-	$500	2.000%	07-Aug-20	+52	+12	
04-Aug-15	3M Co.	Aa3	AA-	$550	3.000%	07-Aug-25	+82	+12	
04-Aug-15	Colgate-Palmolive Company	Aa3	AA-	$600	4.000%	15-Aug-45	+110	+10	1,200 (2.0x)
04-Aug-15	HSBC USA, Inc.	A2	A	$250	3mL+77	07-Aug-18	+77	+12	4,300 (1.6x)
04-Aug-15	HSBC USA, Inc.	A2	A	$850	2.000%	07-Aug-18	+100	+12	
04-Aug-15	HSBC USA, Inc.	A2	A	$1,600	2.750%	07-Aug-20	+117	+11	
04-Aug-15	Philip Morris International Inc.	A2	A	$500	1.250%	11-Aug-17	+65	+7	3,100 (2.5x)
04-Aug-15	Philip Morris International Inc.	A2	A	$750	3.375%	11-Aug-25	+128	+14	

WEEKLY AVERAGE NEW ISSUE CONCESSIONS

NSP-MN priced with a +7 bps new issue concession, well inside of average new issue concessions on transactions priced over the past month



Source: MUFG

About WMFS Resources News Site Map

WM Financial Strategies

Docket No. E,G002/S-15-948
DOC Attachment 10
Page 1 of 3

Studies Pertaining to Competitive and Negotiated Bond Sales

By: Joy A Howard
November 2013

The following is intended to be a comprehensive list of studies relating to competitive and negotiated sales of municipal bonds. The list excludes studies completed prior to 1970 (due to changes in the marketplace), studies or reports that do not include an analytical analysis, and studies or reports performed or commissioned by underwriters or financial advisors that had a financial interest in the issues being analyzed.

As noted below, only one analytical study has ever been completed suggesting that negotiated sales have lower total interest costs than competitive sales.

Study that Negotiated Sales Result in Lower Costs

Kenneth Kriz, 2003, Quarterly Review of Economics and Finance, Vol. 43, "**Comparative cost of negotiated versus competitive bond sales: new evidence from state general obligation bonds**." (Study of 521 State general obligation issues found that for a sample of state general obligation bonds, "negotiated offerings have at worst no higher and perhaps lower interest costs.")

Studies that Competitive and Negotiated Sales have Similar Cost

Paul A. Leonard, 1996, *Municipal Finance Journal,* Vol. 17, "**An Empirical Analysis of Competitive Bid and Negotiated Offerings of Municipal Bonds**" (Based on 2,333 issues sold in 1992, study found that reoffering yields on negotiated and competitive offerings were not different.)

Glenn L. Stevens and R. Patrick Wood, 1998, Journal of Public Budgeting, Accounting & Financial Management, "**Comparative Financing Costs for Competitive and Negotiated Pennsylvania School District Bonds**" (Study of 177 issues sold in 1993 found that there was no difference in total interest costs for competitive and negotiated sales.)

Jun Peng and Peter F Brucato, Jr., 2001, Municipal Finance Journal, "**Do Competitive-Only Laws Have an Impact on the Borrowing Cost of Municipal Bonds?**" (Study of 530 general obligation issues sold in 1998 that had a par amount greater than $5 million found the cost of issues sold by negotiation and by competitive bid to be similar.)

Studies that Competition Results in Lower Costs

Reuben Kessel, 1971, The Journal of Political Economy, Vol. 79, "**A Study of the Effects of Competition in the Tax-Exempt Bond Market**" (Study of 6,503 issues found that more bids result in lower underwriting spread and lower yields.")

Earl D. Benson, 1979, The Journal of Finance, Vol. 34, "**The Search for Information by Underwriters and its Impact on Municipal Interest Cost**" (Study found that more bids result in lower interest costs.)

Michael Joehnk and David Kidwell, 1979, The Journal of Finance, Vol. 34, "**Comparative Costs of Competitive and Negotiated Underwritings in the State and Local Bond Market**" (Study of paired data consisting of 404 pairs of general obligation bonds and 330 pairs of revenue bonds found that competitive sales reduce costs by 23 to 27 basis points compared to negotiated sales.)

Ronald Forbes and John Petersen, 1979, Government Finance Research Center, Municipal Finance Officers Association, "**Local Government General Obligation Bond Sales in Pennsylvania: The cost Implications of Negotiation vs. Competitive Bidding**" (Study found that yields were 28.7 basis points higher for negotiated sales.)

Eric Sorensen, 1979, Journal of Money, Credit and Banking, Vol. 11, "**Negotiated Municipal Bond Underwritings: Implications for Efficiency**" (Study found lower costs for competitive issues if there are two or more bids. With 3 or more bids savings from competitive sales ranged from 26.5 to 40.2 basis points.)

Michael Joehnk and David Kidwell, 1980, Public Administration Review, Vol. 40, "**A Look At Competitive and Negotiated Underwriting Costs in the Municipal Bond Market**" (Study found that competitive sales reduced interest cost by 15 basis points for general obligation bonds and by 35 basis points for revenue bonds.)

Ronald C. Braswell, Joe Nosari, and DeWitt L. Summer, 1983, Journal of Money, Credit and Banking, Vol. 15, "**A Comparison of True Interest Costs of Competitive and Negotiated Underwritings in the Municipal Bond Market**" (Study of Florida issues found 18 basis points lower for competitively bid bonds.)

Michael Joehnk and David Kidwell, 1984, Financial Management, Vol. 13, "**The Impact of Market Uncertainty on Municipal Bond Underwriter Spread**" (Study found that spreads on competitively bid bonds is lower than negotiated issues provided that 2 or more bids are received.)

Robert L. Bland – 1985, Public Administration Review, Vol. 45, "**The Interest Cost Savings from Experience in the Municipal Bond Market**" (Inexperienced issuers that sell bonds by negotiation pay a high cost and should sell competitively. Issuers that have had experience in negotiation - four or more issues - may obtain interest costs no higher than competitively sold issues.)

Judy E. Maese, 1985, Financial Management, Vol. 14, "**Competitive Versus Negotiated Municipal Revenue Bond Issues: An Investigation of Underpricing**" (Study found that net interest cost for competitive issues were 60 to 77 basis points less than negotiated sales.)

GFOA Research Center, 1993 "**Study of Tax-exempt Bond Issues 1986-1992**" (Study for the City of Pittsburgh found competitive bond sales to be less expensive.)

Office of Margaret Kelly, CPA, Missouri State Auditor, 1995 "**Special Review of Bonds Issued by Political Subdivisions**" (Survey of 2,857 Missouri political subdivision found that interest costs were lower for competitively sold issues.) [View Study]

Kathy Engebretson, 1996, University of Pennsylvania dissertation, "**The Political Economy of Competitive and Negotiated Sales in the Municipal Bond Market**" (Study of bonds in 41 large U.S. cities between the years of 1980 and 1993 found that negotiated sales resulted in net interest cost as much as 48 basis points higher than competitive sales. The study also explored the political circumstances in which negotiated sales were selected.)

William Simonsen and Mark D. Robins, 1996, Public Administration Review, Vol. 56 "**Does it make any difference anymore? Competitive versus negotiated municipal bond issuance**" (Study pertaining to Oregon found 29 basis points savings with competitive bidding and greater savings with more bids.)

Wisconsin Legislative Audit Bureau, 1997, Bureau prepared a study of State bonds sold between 1994 and 1997 at the direction of State lawmakers who expressed concern regarding the number of bonds sold by negotiation. (Study found that three evaluation sheets of negotiated sales were unexpectedly missing. Of the evaluation sheets that were available, the competitively sold bonds had underwriting spreads $2.60 per $1,000 less than the negotiated issues.)

Paul Leonard, Municipal Finance Journal, Winter 1999. "**Competitive Bidding for Municipal Bonds: New Tests of the Underwriter Search Hypothesis**" (Study of 937 issues sold in 1992 could not conclude that all issues benefit from competitive bid but some do and for competitively bid bonds, the greater the number of bids the lower the cost.)

Alec Gershberg, Michael Grossman and Fred Goldman, 1999, National Bureau of Economic Research, "**Competition and the Cost of Capital Revisited: Special Authorities and Underwriters in the Market for Tax-exempt Hospital Bonds**" (Although 94% of hospital bonds issued by State authorities are sold though negotiation, hospital bonds sold through auctions yielded half a percentage point below those sold without public bidding.)

Office of Claire McCaskill, Missouri State Auditor, 2001 "**Audit of General Obligation Bond Sale Practices**" (Study found that interest costs were 38 basis points lower for competitively sold issues.) [View Study]

William Simonsen, Mark Robbins and Lee Helgerson, 2001, "**The Influence of Jurisdiction Size and Sale Type on Municipal Bond Interest Rates: An Empirical Analysis**" (Study of municipal bond sales in Oregon from 1994 to 1997 found 17 basis point reduction for competitive sales and the savings were higher with 4 or more bids)

Mark Robbins, 2002, Public Budgeting & Finance/Summer 2002, "**Testing the Effects of Sale Method Restrictions in Municipal Bond Issuance: The Case of New Jersey**" (Study of revenue bonds found 35 basis point savings with competitive sales.) [View Study]

Jun Peng and Peter F Brucato, 2003, Public Budgeting and Finance, **"Another Look at the Effect of Method of Sale on the Interest Cost in the Municipal Bond Market – A Certification Model"** (The study hypothesis was that if issuers do not have "information asymmetry" neither sale method would have a cost advantage; however, the study found that there were true interest cost savings for competitively sold issues ranging from 5 basis points, for high credit bonds, to as much as 40 basis points.)

Office of Claire McCaskill, Missouri State Auditor, 2005 **"General Obligation Bond Sale Practices Follow Up"** (Study found that interest costs were 19 basis points lower for competitively sold issues.) [View Study]

Mark D. Robbins and Bill Simonsen, 2007, **"Competition and Selection in Municipal Bond Sales: Evidence from Missouri"** (Study reanalyzed the data from the Missouri State Auditor's 2005 study using Ordinary Least Squares Regression with selection correction and found that interest costs were19 basis points lower for competitively sold issues after taking into account the cost of financial advisor services.)

Office of Thomas A. Schweich, Missouri State Auditor, 2013 "General Obligation Bonds Sales Practices" (Study found that competitive sales result in 23.5 to 24.2 lower basis points than for a negotiated sale.) [View Study]

Note: This listing is intended to be comprehensive. Any study excluded, except as noted in the introduction, is unintentional. Additional studies, if found, may be provided to Ms. Howard for inclusion in this list.

About WMFS | Background | Experience | Resume | Services | Resources | News | Site Map | Home

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Xcel Energy			
Docket No.:	EG002/S-15-948		
Response To:	Department of Commerce	Information Request No.	10
Requestor:	John Kundert		
Date Received:	December 8, 2015		

Question:

Reference: Response to DOC Information Request No. 2, subpart (b)

Did any of the bonds issued via negotiation listed in this response include innovative or unusual financing structures?

Response:

There are currently just first mortgage bonds outstanding. NSPM has had more complex structured securities (Trust Preferred Stock (TOPrS)) in its portfolio.

Preparer:	Mary Schell
Title:	Director Corporate Financial Policy
Department:	Treasury/Finance/CFO
Telephone:	612-215-5362
Date:	December 18, 2015

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Xcel Energy			
Docket No.:	E,G002/S-15-948		
Response To:	Department of Commerce	Information Request No.	9
Requestor:	John Kundert		
Date Received:	December 8, 2015		

Question:

Reference: Response to DOC Information Request No. 2

a. Does the Company have a policy or protocol for selecting an underwriter for a bond issuance?

   a. If so, please provide a copy of this policy or protocol.
   b. If not, please provide a narrative that explains the Company's approach to selecting an underwriter for a bond issuance.

b. Does the Company issue a request for proposal (RFP) prior to each bond issuance in order to select the underwriter for that bond issuance?

   a. If so, please provide a copy of this RFP for each of the negotiated bond issuances listed in the Company's response to DOC Information request No. 2.
   b. If the Company doesn't issue and RFP in order to select the underwriter for a bond issuance, please provide a narrative that explains the Company's approach for selecting the underwriter for a bond issuance.

Response:

a. The Company does not have a formal policy in selecting an underwriter for a bond offering. As stated in the Company's response to DOC Information Request No. 8, Part c., the structure of the banking industry changed, allowing for the investment banks to combine with the credit banks. Consistent with other companies, NSPM typically selects banks that provide lending support via its credit agreement to also lead security offerings. With 20 banks supporting its credit agreement, NSPM rotates banks through the security issuance process.

b. Please see our response to Part a. above. The Company rotates through the banks that provide credit support. The underwriting fees for banks are market standard, and the bonds are priced in real-time competitive market conditions.

Preparer:	Mary Schell
Title:	Director Financial Policy
Department:	Treasury/Finance/CFO
Telephone:	612-215-5362
Date:	December 18, 2015

Planned Investments (Excluding AFUDC)

Docket No. E,G002/S-15-____
Attachment N
Page 1 of 2

$Millions

Project	2014				2015					
	2014 Year-End Estimate (a)	2014 Year-End Actuals	2014 Variance		2015 Projection as filed (a)	2015 YTD Actual Through August 31st	2015 Sept Thru Year-End Estimate	2015 Year-End Estimate	2015 Variance from prior filing	
Energy Supply – Total	**135.8**	**132.9**	**-2.9**		**673.6**	**83.0**	**689.9**	**772.9**	**99.3**	
- Wind	35.9	36.5	**0.6**		574.3	8.5	659.2	667.7	**93.4**	(d)
- Sherco environmental	0.0	0.0	**0.0**		0.0	0.0	0.0	0.0	**0.0**	
- Black Dog Repowering	0.0	0.0	**0.0**		0.0	0.0	0.0	0.0	**0.0**	
- Black Dog CT's	0.0	0.1	**0.1**		1.0	1.3	5.7	7.0	**6.0**	
- Black Dog site remediation	1.6	1.3	**-0.3**		8.4	4.9	6.8	11.7	**3.3**	
- Other Energy Supply	98.3	95.0	**-3.4**		89.9	68.4	18.1	86.4	**-3.5**	
Nuclear - Total	**333.3**	**337.3**	**4.0**		**273.7**	**178.3**	**105.5**	**283.8**	**10.1**	
- Prairie Island Unit 2 Generator Replacement	-2.8	4.3	**7.1**		0.0	-4.1	0.2	-3.9	**-3.9**	
- Prairie Island Extended Power Uprate & LCM	16.3	18.1	**1.8**		52.6	24.6	-5.5	19.1	**-33.4**	(e)
- Monticello Extended Power Uprate & LCM	-3.1	-4.0	**-0.9**		0.0	2.4	1.1	3.5	**3.5**	
- Nuclear fuel	154.8	154.3	**-0.5**		90.4	57.6	33.8	91.4	**1.0**	
- Other nuclear	168.2	164.5	**-3.6**		130.7	97.9	75.7	173.6	**42.9**	
Distribution – Total	**260.9**	**263.9**	**3.0**		**291.7**	**185.3**	**115.9**	**301.2**	**9.5**	
Gas	74.6	69.0	**-5.5**		83.4	56.3	31.2	87.5	**4.1**	
Electric	186.3	194.8	**8.5**		208.3	129.0	84.8	213.8	**5.5**	
Transmission – Total	**361.1**	**342.8**	**-18.4**		**286.3**	**169.6**	**121.8**	**291.4**	**5.0**	
+ CapX 2020	225.6	208.6	**-17.0**	(b)	83.8	74.9	2.8	77.7	**-6.1**	
+ Midtown Hiawatha Project	10.4	9.4	**-1.0**		0.1	0.3	0.0	0.4	**0.3**	
+ Sioux Falls Northern 115kv Loop	15.4	10.6	**-4.8**		10.8	11.9	0.0	18.0	**7.2**	
+ Big Stone-Brookings 345 kv Line	3.1	2.5	**-0.6**		7.0	1.4	4.4	5.8	**-1.2**	
+ Southwest Twin Cities	2.1	2.0	**-0.1**		8.0	4.5	2.7	7.2	**-0.8**	
- other transmission	104.5	109.6	**5.1**		176.7	76.7	111.9	182.3	**5.6**	
Other	**93.2**	**87.0**	**-6.2**		**98.8**	**64.3**	**56.2**	**120.5**	**21.7**	(f)
Total – NSP-Minnesota	**1,184.4**	**1,163.9**	**-20.5**	(c)	**1,624.1**	**680.5**	**1,089.2**	**1,769.7**	**145.6**	(g)

2014 Variance Comments

(a) 2014 and 2015 as filed in Petition dated October 29, 2014 Docket No. E,G002/S-14-922.
(b) CapX 2020 reductions driven by lower overall project cost estimates for the Brookings project CapX 2020 and delays due to material deliveries and weather.
(c) Overall capital costs came in $20.5M (1.73%) lower primarily due to lower costs on the CapX 2020 Brookings project.

2015 Variance Comments

(d) 2015 Energy Supply Wind increase was primarily driven by the Courtenay wind project.
(e) The timing of the Prairie Island Unit 1 Life Cycle Management Generator Replacement project was moved from 2015 to 2018.
(f) Other cost increases are driven by a shift in costs from 2014 into 2015 and overall increased costs related to the productivity through technology (PTT) project.
(g) Overall, 2015 capital expenditures are $145.6M (8.9%) higher than budget primarily due to the Courtenay wind project and PTT costs.

Planned Investments (Excluding AFUDC)

$Millions	2016 - 2020					
	Forecast as of September 2015					
Project	2016 (a)	Current 2016	2017	2018	2019	2020
Energy Supply – Total	**103.7**	**325.2**	**114.1**	**113.1**	**155.4**	**239.9**
- Sherco	0.0	0.0	0.0	0.0	0.0	0.0
- Black Dog CT's	2.8	58.9	32.4	0.1	0.0	0.0 (b)
- Black Dog site remediation	11.9	12.1	9.8	8.4	11.1	17.5
- Wind	0.3	203.0	0.0	0.0	0.0	0.0 (c)
- Other Energy Supply	88.8	51.2	71.9	104.6	144.4	222.4
Nuclear - Total	**262.8**	**277.8**	**270.0**	**263.1**	**237.6**	**150.8**
- Prairie Island Unit 2 Generator Replacement	0.0	0.0	0.0	0.0	0.0	0.0
- Prairie Island Extended Power Uprate & LCM	18.2	1.8	0.9	62.4	0.1	0.0 (d)
- Monticello Extended Power Uprate & LCM	0.0	0.0	0.0	0.0	0.0	0.0
- Nuclear fuel	119.1	118.6	116.5	62.3	142.5	84.8
- Other nuclear	125.5	157.3	152.6	138.5	95.1	66.0
Distribution – Total	**307.8**	**294.8**	**284.8**	**330.7**	**340.1**	**344.4**
Gas	88.8	84.8	74.8	96.3	102.0	101.5
Electric	219.1	210.0	210.0	234.5	238.1	242.9
Transmission – Total	**206.9**	**157.0**	**155.6**	**203.2**	**320.3**	**298.5** (e)
+ CapX 2020	4.4	21.1	-1.0	0.0	0.0	0.0
+ Midtown-Hiawatha Project	0.0	0.0	0.0	0.0	0.0	0.0
+ Sioux Falls Northern 115kV Loop	0.0	1.5	0.0	0.0	0.0	0.0
+ Big Stone-Brookings 345 kv Line	48.5	39.8	30.8	2.5	0.0	0.0
+ South West Twin Cities	0.0	1.4	0.0	0.0	0.0	0.0
- other transmission	154.1	93.2	125.8	200.7	320.3	298.5
Other	**108.7**	**127.3**	**98.5**	**92.8**	**82.5**	**85.3** (f)
Total – NSP-Minnesota	**990.0**	**1,182.0**	**923.0**	**1,003.0**	**1,136.0**	**1,119.0** (g)

(a) 2016 as filed in Docket No. E,G002/S-14-922, Attachment N, Page 2 of 2.

2016 Key Variances from 2016 Estimate in Docket No. E,G002/S-14-922

(b) The timing of the Black Dog CT's was moved up from 2017/2018 to 2016/2017.
(c) The $203M increase in wind is directly related to the new Courtenay Wind project.
(d) The timing of the Prairie Island Unit 1 Life Cycle Management Generator Replacement project was moved from 2016 to 2018.
(e) The decrease in transmission costs related to timing of the Big Stone-Brookings 345 kv line project as costs were shifted from 2016 into 2017 and the reallocation of work between additional CAPX 2020 projects offset by a decrease in other smaller transmission projects.
(f) Other cost increases are primarily driven by overall increased costs related to the productivity through technology (PTT) project.
(g) Overall, the 2016 estimate above of $1,182 is approximately $192 million greater than the $990 million forecast in Docket No. E, G002/S-14-922. The significant increase was primarily due to the new Courtenay Wind Project.

CERTIFICATE OF SERVICE

I, Marcella Emeott, 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 Number: E,G002/S-15-948

Dated this 30th day of December 2015

/s/Marcella Emeott

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