



414 Nicollet Mall
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March 12, 2018

—Via Electronic Filing—

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

RE: REPLY COMMENTS
NUCLEAR DECOMMISSIONING ACCRUAL
DOCKET NO. E002/M-14-761

Dear Mr. Wolf:

Northern States Power Company, doing business as Xcel Energy, submits this Reply to the Comments submitted by the Minnesota Department of Commerce, Division of Energy Resources (Department) on March 1, 2018. We appreciate the Department's review of our September 15, 2017 Reply Comments in this proceeding.

As the Department noted, we made a number of changes to the Nuclear Decommissioning Trust (NDT) asset allocation last year in response to changing market conditions and the guidance we received from the Department and Commission in this docket. These changes included, among other things, the removal of commodities and hedge funds, which had the effect of reducing investment manager fees and simplifying the portfolio. Additionally, in compliance with the Commission's February 27, 2017 Order, we filed an analysis of our NDT investment strategy that was completed by a third-party expert in long-term institutional investment strategies. That report concluded that the Company was "following a prudent process in managing their NDT assets" and that the "Xcel NDT portfolio is properly diversified amongst a reasonable amount of non-correlated asset classes." Ultimately, the report did not recommend any immediate changes to the NDT but recommended that the Company continue to evaluate its investment approach over time as new studies are performed and market conditions change. This is consistent with our overall investment management approach for the NDT.

At the same time, we recognize that the Department has recommended what it characterizes as “small but important” changes to the NDT asset allocation. Specifically, the Department has recommended the following:

- Increase small cap equity from 2.6% to 15%;
- Eliminate the 10% allocation of real estate from the portfolio; and
- Reduce high yield bonds from 10% to 7.6%.

We do have some concerns at this stage regarding these recommendations, as they would result in a fairly significant increase to our overall equity allocation and eliminate an entire asset class (real estate) that helps to manage portfolio risk while contributing to returns in up and down markets. We also view real estate as a hedge against potential unanticipated inflation, to which the decommissioning liability is sensitive. Finally, we note that our real estate portfolio contains a significant allocation to illiquid assets that cannot be readily liquidated—at least without incurring some kind of penalty or discounted return. As such, any change to this allocation would need to occur over a period of time and pursuant to a carefully devised liquidation strategy in order to best serve our customers.

That said, we are open to studying the Department’s recommendations further. In particular, we would like to better understand the assumptions underlying the Department’s return calculations, asset allocation modeling, and how those assumptions differ from those used in our own analyses and calculations. We would also like to better understand how the recommended changes would impact the risk profile of the total portfolio on a forward-looking basis. To that end, we propose to cooperate with the Department in conducting additional scenario analyses around the three recommendations, as well as our current portfolio, and to provide an update to the Commission regarding this work in course of the now-ongoing 2017 Nuclear Decommissioning Accrual Docket (E002/M-17-828). We believe this additional information and analysis will assist the Commission in assessing the Company and the Department’s positions and may help facilitate additional consensus around the appropriate strategy for the NDT. We further believe it makes sense to have these discussions in connection with the accrual setting docket, since our investment strategy and asset allocation directly impact how the accrual is calculated.

We have electronically filed this document with the Minnesota Public Utilities Commission, and copies have been served on the parties on the attached service

list. Please contact me at lisa.h.perkett@xcelenergy.com or (612) 330-6950 if you have any questions regarding this filing.

Sincerely,

/s/

LISA H. PERKETT
PRINCIPAL FINANCIAL CONSULTANT

c: Service List

CERTIFICATE OF SERVICE

I, Jim Erickson, hereby certify that I have this day served copies of the foregoing document on the attached list of persons.

xx by depositing a true and correct copy thereof, properly enveloped with postage paid in the United States mail at Minneapolis, Minnesota

xx electronic filing

Docket No. E002/M-14-761

Dated this 12th day of March 2018

/s/

Jim Erickson
Regulatory Administrator

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