

Minnesota Public Utilities Commission

Staff Briefing Papers

Meeting Date: January 16, 2014 * Agenda Item # **_3_**

Company: Northern States Power Company (“NSP” or the “Company”)

Docket No. E,G-002/S-13-983

In the Matter of Northern States Power Company’s Request for Approval of its 2013 Capital Structure Prior to Issuing Securities

Issue(s): Should the Commission approve NSP’s request for approval to issue securities?

Should the Commission approve NSP’s proposed capital structure and capitalizations?

Should the Commission require NSP to file additional information?

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Relevant Documents

NSP’s PetitionOctober 28, 2013
Department of Commerce (“Department”) Comments November 18, 2013

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

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Statement of the Issue

Should the Commission approve NSP's request for approval to issue securities?

Should the Commission approve NSP's proposed capital structure and capitalizations?

Should the Commission require NSP to file additional information?

Relevant Statute

Minn. Stat. § 216B.49, subd. 3:

It shall be 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 shall first be approved by the commission. Approval by the commission shall be by formal written order.

Subd. 4 of the same statute states:

Upon the application of a public utility for approval of its security issuance and prior to the issuance of any security or the encumbrance of any property for the purpose of securing the payment of any indebtedness, the commission may make such inquiry or investigation, hold such hearings, and examine such witnesses, books, papers, documents, or contracts, as in its discretion it may deem necessary. Prior to approval the commission shall ascertain that the amount of securities of each class which any public utility may issue shall bear a reasonable proportion to each other and to the value of the property, due consideration being given to the nature of the business of the public utility, its credit and prospects, the possibility that the value of the property may change from time to time, the effect which the issue shall have upon the management and operation of the public utility, and other considerations which the commission as a matter of fact shall find to be relevant. 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.

Background

On October 28, 2013, NSP filed a petition requesting that by January 31, 2014, the Commission approve the Company's proposed 2014 capital structure.

On November 18, 2013, the Department filed comments recommending approval of NSP's request.

Xcel did not file reply comments.

Party Positions

NSP's Petition

In its request for approval of its proposed 2014 capital structure, the Company is seeking:

- Approval of its proposed 2014 capital structure and total capitalization;
- Continuation of the ability to issue securities within the approved capital structure ranges;
- Approval of the 2014 Capital Structure to remain valid until the Commission issues an Order approving NSP-MN's 2015 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.

Department of Commerce

The Department's review indicated that NSP provided all the information required by Minn. rules 7825.100 – 7825.1500. Referring to the requirements of Minnesota Statute §216B.49, the Department discussed the reasonableness of NSP's projected capital structure and its request to issue various securities. In addition, the Department reviewed NSP's petition for filing requirements specified by the Commission in previous orders.

Based on its review and analysis the Department recommended that the Commission take the following actions regarding NSP's capital structure petition:

- Approve NSP-MN's requested 2014 capital structure; this approval to be in effect until the 2014 Capital Structure Order is issued.
- Approve a ± 10 percent range around NSP-MN's common equity ratio of 52.3 percent (i.e., a range of 47.07 to 57.53 percent).
- Approve NSP-MN's short-term debt issuance not to exceed 15 percent of total capitalization at any time while the 2014 Capital Structure is in effect.
- Approve NSP-MN's total capitalization contingency of \$522 million (i.e., a total capitalization of \$9,500 million, including the \$522 million).

- Continue the variance authorizing NSP-MN to enter into multi-year credit agreements and issue associated notes thereunder, but require NSP-MN to also continue to report on its use of such facilities, including:
 - how often they are used,
 - the amount involved,
 - rates and financing costs, and
 - the intended uses of the financing.
- Approve NSP-MN's request to issue securities provided that the Company remain within the contingency ranges or does not exceed them for more than 60 days.
- Require NSP-MN to obtain the Commission's preapproval of any issuance expected to result in the Company remaining outside the contingency ranges for more than 60 days.
- Approve NSP-MN's flexibility to use risk-management instruments that qualify for hedge accounting treatment under ASC No. 815.
- Require, in its next capital structure filing, NSP-MN to include an exhibit providing a general projection of capital needs, projected expenditures, anticipated sources, and anticipated timing, with the understanding that such 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.
- Require, in its next annual capital structure filing, NSP-MN to 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.
- Require, within 20 days of each non-recurring security issuance, NSP-MN to file for informational purposes only an after-the-fact report providing the following information: 1) the type of security issued; 2) the total amount issued; 3) the purpose of the issuance; 4) the issuance cost associated with the security issuance; and 5) the total cost of the security issuance, including details such as interest rate or cost per share of common equity issued.

Staff Analysis

As stated above, Minn. Stat. § 216B.49, subd. 3 requires NSP to obtain Commission approval prior to issuing securities. The question for the Commission is whether the record contains the information required by the statutes and rules, and is sufficient for the Commission to approve the petition.

The Department's recommendation is consistent with requirements the Commission has previously applied to securities issuance requests. To ensure that its approval is not open-ended, the Commission may want to require NSP to file its request for approval of its 2015 securities issuances no later November 1, 2014.

Decision Alternatives

Some Commission options are:

A. Approve the Petition

B. Adopt the Department's recommendation to:

- Approve NSP-MN's requested 2013 capital structure; this approval to be in effect until the 2015 Capital Structure Order is issued.
- Approve a ± 10 percent range around NSP-MN's common equity ratio of 52.3 percent (i.e., a range of 47.07 to 57.53 percent).
- Approve NSP-MN's short-term debt issuance not to exceed 15 percent of total capitalization at any time while the 2014 Capital Structure is in effect.
- Approve NSP-MN's total capitalization contingency of \$522 million (i.e., a total capitalization of \$9,500 million, including the \$522 million).
- Continue the variance authorizing NSP-MN to enter into multi-year credit agreements and issue associated notes thereunder, but require NSP-MN to also continue to report on its use of such facilities, including:
 - how often they are used,
 - the amount involved,
 - rates and financing costs, and
 - the intended uses of the financing.
- Approve NSP-MN's request to issue securities provided that the Company remain within the contingency ranges or does not exceed them for more than 60 days.
- Require NSP-MN to obtain the Commission's preapproval of any issuance expected to result in the Company remaining outside the contingency ranges for more than 60 days.
- Approve NSP-MN's flexibility to use risk-management instruments that qualify for hedge accounting treatment under ASC No. 815.
- Require, in its next capital structure filing, NSP-MN to include an exhibit providing a general projection of capital needs, projected expenditures, anticipated sources, and anticipated timing, with the understanding that such 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.
- Require, in its next annual capital structure filing, NSP-MN to 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.

- Require, within 20 days of each non-recurring security issuance, NSP-MN to file for informational purposes only an after-the-fact report providing the following information: 1) the type of security issued; 2) the total amount issued; 3) the purpose of the issuance; 4) the issuance cost associated with the security issuance; and 5) the total cost of the security issuance, including details such as interest rate or cost per share of common equity issued.
- C. Additionally, the Commission may want to require NSP to file its request for approval of its 2015 securities issuances no later than November 1, 2014.