

Staff Briefing Papers

Meeting Date February 18, 2021 Agenda Item 3 *

Company Northern States Power Company, dba Xcel Energy

Docket No. **E,G-002/S-20-768**

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

Issue Should the Commission approve Northern States Power Company's proposed 2020 capital structure and grant permission to issue long-term and short-term securities?

Staff Robert Manning Robert.manning@state.mn.us 651-201-2197

Relevant Documents

Date

Xcel Energy - Initial Filing - 2021 Capital Structure Petition (TS)	October 5, 2020
Department of Commerce - Comments	December 21, 2020
Xcel Energy - Reply Comments	December 22, 2020

To request this document in another format such as large print or audio, call 651.296.0406 (voice). Persons with a hearing or speech impairment may call using their preferred Telecommunications Relay Service or email consumer.puc@state.mn.us for assistance.

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

I. Statement of the Issue

Should the Commission approve Northern States Power Company's proposed 2020 capital structure and grant permission to issue long-term and short-term securities?

II. Introduction

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

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

On October 5, 2020, Northern States Power Company, dba Xcel Energy (Xcel) filed a petition seeking approval of its proposed 2021 capital structure, as well as permission to issue securities within the scope of the proposed capital structure, plus contingencies. Specifically, Xcel is requesting:

- Approval of its proposed capitalization of **\$13.9 billion**, including a **\$646 million** contingency;
- A consolidated equity ratio of **52.4 percent** with a contingency range of **+/- 10 percent**, i.e. a range of **47.16 percent** to **57.64 percent**;
- The ability to issue short-term debt not to exceed **15 percent** of total capitalization;
- **Continuation of the variance** permitting Xcel to enter and use multi-year credit agreements and issue associated notes, and to consider any direct borrowings as short-term debt for approved capital structure purposes;
- Flexibility to issue securities provided that the Company remains within the contingency ranges or does not exceed them for more than 60 days;
- Continued flexibility to issue long-term debt, provided Xcel remains within the limits approved for the short-term debt and equity ratios, as well as within the total capitalization limit;
- Flexibility to use risk management instruments that qualify for hedge accounting treatment;
- Approval to have discretion to enter into financings to replace outstanding long-term debt instruments with less expensive securities after considering the debt issuance expenses and amortization of redemption premia and expenses, and to enter into tax-exempt financing if funds are available for construction programs; and,
- Approval of the 2021 capital structure by February 1, 2021, effective until the Commission issues a 2022 capital structure Order.

Xcel's actual and forecasted capital structure is shown in the table below:

Table 1: Capital Structure Forecast¹
(millions of dollars)

	June 30, 2020 Actual		December 31, 2020 Forecast		December 31, 2021 Forecast		Row
Common Equity	6,290	50.4%	6,667	52.3%	6,964	52.4% +/-5.24%	1
Short Term Debt	0	0%	166	1.3%	33	0.2%	2
5-year Credit Facility	0	0%	0	0%	0	0%	3
Total STD	0	0%	166	1.3%	33	0.2%	2+3
Long Term Debt	6,202	49.6%	5,905	46.4%	6,304	47.4%	4
Total Capitalization	12,492		12,738		13,301		1+2+3 +4
Contingency					646		5
Total with Contingency					13,947		1+2+3 +4+5

Xcel enumerates approximately \$8 billion in planned investment over the next 5 years, including significant investments in wind, nuclear power (mostly fuel purchases), electric transmission, and gas and electric distribution.² In 2021, Xcel plans to issue approximately \$400 million in long-term debt, and expects to receive about \$125 million in equity infusions from its parent company, Xcel Energy Inc. (XEI). This is less new long-term debt than Xcel issued in 2020 or 2019, when Xcel issued \$700 million and \$600 million respectively.

IV. Parties' Comments

The Department of Commerce, Division of Energy Resources (Department) provided comments on this docket on December 21, 2020. The Department finds that Xcel's filing is complete and that all supporting documents are sufficient. The Department recommends approval of Xcel's capital structure filing with one exception. In its Summary of Filing, Xcel states "The Company requests authorization to make one or more issues of securities with the provision that these parameters will not be exceeded for more than 60 days without notifying the Commission." The Department recommends that this be modified so that Xcel is authorized to make one or more issues of securities with the provision that these parameters will not be exceeded for more than 60 days without APPROVAL from the Commission. The Department argues that the language in the original filing would authorize Xcel to act without approval by simply notifying the Commission, which would undermine the intent of the capital structure approval process.

The Department also found that Xcel's filing complies with Commission orders to use the Utility Money Pool only where other financing is not available, and to only contribute to Xcel's pool

¹ Please see Xcel, Petition, Attachment B

² Please see Department, Comments, p. 2, Table 1.

when it provides returns greater than available through other investment opportunities. The Department also notes continuation of restrictions on Xcel Energy lending money to its parent company and not encumbering utility property for non-utility purposes.

The Department changed its analysis of cash flow from an Earnings before interest, taxes, depreciation and amortization (EBITDA) to an Earnings before interest and taxes (EBIT) basis, on the belief that depreciation and amortization are real expenses for the company that affect its ability to pay off debt. The Department found that Xcel's EBIT to debt ratio is appropriate and hasn't changed much in recent years, suggesting that Xcel's financial position is solid.

In reply comments, Xcel agreed to the Department's proposed change.

V. Staff Analysis

Staff has reviewed the filing and believes that it is complete and appropriate to approve with the caveat that the Department identified. The issue identified by the Department appears to have been a phrasing error by Xcel that they readily corrected. The change from EBITDA to EBIT does not appear to be significant for this case.

Staff also finds that Xcel continues to comply with Order Point 6 of Docket 17-767, *In the Matter of the Petition of Northern States Power Company d/b/a Xcel Energy for Approval of Its Capital Structure and Permission to Issue Long- and Short-Term Securities for 2018*. This required that Xcel in all future Capital Structure filings provide updated information on its investment activities, including:

- a. a schedule showing, for various time periods, the planned investment for each project;
- b. a summary of Xcel's activity in the Utility Money Pool;
- c. a discussion detailing how often multiyear credit agreements are used, the amount involved, rates and financing costs, the intended uses of the financing, and, for any period in which Xcel sells bonds, a comparison over a six-month period of the results of all bond issuances by other utilities;
- d. to ensure compliance with Order Points 1 and 2 of the Commission's July 9, 2004 order in Docket No. E,G-002/AI-04-100, a comparison of the borrowing and lending interest rates from the money pool to alternative interest rates, such as that provided in Xcel's response to Department Information Request (IR) No. 2, shown in Attachment 2 to the Department's comments;
- e. to the extent practicable, evidence demonstrating that any bond issuances over the preceding year were cost-competitive, including at a minimum a detailed comparative analysis to other bond issuances such as that provided in Xcel's response to Department IR No. 1(c), which is provided as Attachment 3 to the Department's comments; and
- f. a summary of Xcel's use of risk-management instruments and the resulting effect on ratepayers.

VI. Decision Alternatives

1. Approve Xcel's petition, to be effective until the Commission issues a 2022 capital structure order, including the following elements:
 - a) a range of equity ratio from 47.16% to 57.64% (i.e. 52.4% +/- 5.24%);
 - b) a short-term debt limit of 15% of total capitalization;
 - c) a maximum capitalization for Xcel of \$13.947 billion in 2021, including a base capitalization of \$13.301 plus a contingency of \$646 million, or 4.86%;
 - d) continuation of the variance to Minnesota Rule 7825.1000, subpart 6, to allow Xcel to treat borrowing under multi-year credit agreements as short-term debt for approved capital structure purposes;
 - e) use of risk management instruments that qualify for hedge accounting treatment; and
 - f) authorization to issue securities provided that Xcel does not exceed the limits of the approved equity ratio, maximum short-term debt ratio, or maximum capitalization for more than 60 days without Commission authorization. (DOC, agreed to by Xcel)

OR

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