BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

LeRoy Koppendrayer	Chair
Marshall Johnson	Commissioner
Ken Nickolai	Commissioner
Thomas Pugh	Commissioner
Phyllis A. Reha	Commissioner

In the Matter of the Petition by Northern States Power Company for Approval of Capital Structure and for Issuance of Long-Term and Short-Term Securities for 2007

ISSUE DATE: March 30, 2007

DOCKET NO. E,G-002/S-06-1474

ORDER GRANTING PETITION AND SETTING REPORTING REQUIREMENTS

PROCEDURAL HISTORY

On October 24, 2006, Northern States Power Company, a Minnesota corporation and wholly owned subsidiary of Xcel Energy, Inc. (NSP-MN or the Company), filed a petition for approval of its 2007 capital structure and for authorization to issue securities.

On November 27, 2006, the Minnesota Department of Commerce (the Department) filed comments recommending approval with reporting requirements.

On December 6, 2006, the Residential and Small Business Utilities Division of the Office of the Attorney General (RUD-OAG) filed comments recommending denial unless the Company withdrew its request to include “general corporate purposes” among the list of purposes for which it would be authorized to issue securities. The Division also recommended that the Commission limit its approval of securities issuances to those delineated with specificity in the Company’s filing.

The Department and the Company filed reply comments arguing that “general corporate purposes” was standard language needed to give the Company the flexibility to operate effectively in volatile financial markets.

On March 8, 2006, the filing came before the Commission.

FINDINGS AND CONCLUSIONS

I. Requested Action

The Company’s 2007 capital structure petition did not differ significantly from its 2006 capital structure petition, which was approved. The petition requested the following action by the Commission:

- Approval of proposed capital structure and proposed total capitalization

- Continued authorization to issue securities within approved capital structure ranges

- Continued authorization to use risk-management instruments to reduce the cost of capital

- Extension of an existing variance permitting the Company to treat borrowings under multi-year credit agreements as short-term debt

- Order provisions clarifying that the 2007 capital structure Order would remain in effect until the issuance of the next capital structure Order

II. The Company's Proposal

The terms of the Company's proposal are summarized below:

Type of Security	Amount ($Millions)	Percentage
Common Equity	2,742	50.9%
Short-Term Debt	148	2.8%
Long-Term Debt	2,492	46.3%
Total Capitalization	5,382	100.0%

Equity Ratio – The Company asked the Commission to approve an equity ratio of 50.9, plus or minus 10%, to grant it flexibility. This would result in an approved equity range of 45.81% to 55.99%.

Total Capitalization – The Company sought approval of a total capitalization for 2007 of $5,800 million, including a contingency of $418 million. The capitalization would consist of the following:

- **Short-term debt and multi-year credit agreements** of not more than 15% of the $5,800 million. (Use of multi-year credit agreements as short-term debt requires a variance to Minn. Rules, part 7825.1000, subp. 6, which defines "short-term security" as one with a maturity date within one year of its issuance.)

- **Long-term debt.** The Company expects to issue $375 million in long-term debt, and requested authority to issue up to $400 million. Proceeds of the new debt issuance would be used to refinance higher coupon debt, to repay short-term debt, to fund NSP-MN's construction program, and for other general corporate purposes.

- **Equity.** In 2007, the Company expects total equity infusions of approximately $107 million, primarily to maintain the proposed target equity ratio.

Issuing Securities – The Company asked for the flexibility to issue these securities as it saw fit, without further Commission action, provided that the Company remains within the approved total capitalization and long-term and short-term debt and equity ranges, or does not exceed those ranges for more than 60 days.

Risk-Management Instruments – The Company asked for continued permission to use risk management instruments (i.e., to hedge) when appropriate to provide an economically efficient means of managing price, duration, or interest rate risk on securities. The Company would report on their use and the economic effects of their use in its next annual capital structure filing.

III. Positions of the Parties

The Department recommending granting the petition with reporting requirements, and the Company concurred.

The RUD-OAG argued that granting authority to issue securities for "general corporate purposes" provided insufficient regulatory oversight and ratepayer protection. The Division also pointed out that Commission Orders in an earlier docket opened to examine the impact on ratepayers of Xcel's failed investment in an unregulated and ultimately bankrupt enterprise,[1] had required the Company to provide more specific explanations for securities issuances than "general corporate purposes."

IV. Commission Action

A. The Filing Generally

The Commission has examined the Company's petition and finds that the proposed capital structure, including its components in the proportions proposed, is reasonable and consistent with historical practice. It will be approved.

The Company's request to extend the variance permitting it to treat borrowings under multi-year credit agreements as short-term debt will also be approved. (Under Commission rules, variances expire in one year unless the Commission directs otherwise.[2]) The Commission has examined its 2005 Order granting the variance[3] and concurs with the Department that the purposes for which it was granted continue to apply and that the first two years' experience under the variance demonstrates no cause for concern. The variance will therefore be extended for another year, together with the reporting requirements to which it has always been subject.

Similarly, the Company's use of risk-management or "hedging" instruments over the past several years has not created cause for concern, and continued use of those instruments will be approved, together with the reporting requirements that have long attached to their use.

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[1] *In the Matter of an Inquiry into the Possible Effects of Financial Difficulties at NRG and Xcel on NSP and its Customers and Potential Mitigation Measures*, Docket No. E,G-002/CI-02-1346, see, for example, Order Closing Docket Subject to Safeguards and Requirements (December 4, 2006).

[2] Minnesota Rules 7829.3200, subp. 3.

[3] *In the Matter of Northern States Power Company's Request for Approval of its 2005 Capital Structure*, Docket No. E,G-002/S-04-1794, Order Approving 2005 Capital Structure (March 15, 2005).

B. Purposes of Securities Issuances

Finally, the Commission will permit the Company to include “other general corporate purposes” in the list of approved purposes for security issuances, accepting the Company’s and Department’s assurances that this is standard language needed for two reasons: (1) to give the Company the flexibility it needs to operate effectively in volatile financial markets; and (2) to distinguish between normal and ordinary operating purposes, for which securities issuances would be pre-approved, and extraordinary purposes, for which the Company must seek shareholder approval before issuing securities.

Both parties assured the Commission that the language was not intended to grant – and would not grant – total discretion to issue securities for any purpose, but was intended to permit the Company to meet unanticipated or inadvertently overlooked capital requirements related to its core utility business. Both parties pointed out that the prohibition against deviating more than 10% from the required equity ratio provided additional, meaningful ratepayer protection. And both parties pointed out that the Company fully understood its obligation to consult the Commission before changing its primary business focus or issuing securities for that purpose.

Given these assurances and this clarification, the Commission concludes that it is reasonable and in the public interest to permit the “general corporate purposes” language to remain. Permitting the Company to react promptly to changes in interest rates and other economic indicators should benefit shareholders and ratepayers alike.

Adequate regulatory oversight can and will be ensured by requiring prompt reporting on every securities issuance. And, of course, to the extent that NSP-MN intends to significantly change its business focus and materially diversify, NSP-MN is expected to file with the Commission prior to engaging in such diversification.

For all these reasons, the Commission will approve the Company’s proposed capital structure and will grant authorization for securities issuances within the parameters identified, with reporting requirements to ensure adequate regulatory review.

The Commission will so order.

ORDER

1. The Commission hereby approves the Company’s proposed capital structure and total capitalization of $5,800 million, including its proposed capitalization contingency of $418 million.

2. The Commission hereby approves a plus or minus 10% range around NSP-MN’s common equity ratio of 50.9%, i.e., a range of 45.81% to 55.99%.

3. The Commission hereby approves NSP-MN’s short-term debt issuance not to exceed 15% of total capitalization while the 2007 capital structure is in effect.

4. The Commission hereby extends the variance to Minnesota Rules 7825.1000, subp. 6, to permit NSP-MN to enter into multi-year credit agreements and issue associated notes thereunder, subject to the reporting requirements set forth below:

(a) How often they are used
(b) The amounts involved
(c) Rates and financing costs
(d) Intended uses of each financing

5. The Commission hereby approves NSP-MN's continued use of risk-management instruments that qualify for hedge accounting treatment under Standard Financial Accounting Standard No. 133, subject to the requirement that the Company report on any use of these instruments in its next capital structure filing.

6. The Commission hereby approves the Company's request to issue securities provided that the Company remains within the contingency ranges set in this Order or does not exceed them for more than 60 days.

7. Within 30 days of each securities issuance, the Company shall file a report detailing its purposes.

8. This Order shall remain in effect until the Commission issues its Order on the Company's 2008 capital structure petition.

9. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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