Xcel Energy®

414 Nicollet Mall
Minneapolis, MN 55401

February 15, 2018

**PUBLIC DOCUMENT:
TRADE SECRET DATA EXCISED**

--VIA EMAIL AND FEDERAL EXPRESS--

Darrell Nitschke
Executive Secretary
North Dakota Public Service Commission
600 East Boulevard
Bismarck, North Dakota 58505-0480

RE: INITIAL COMMENTS
STAFF'S REQUEST TO INVESTIGATE EFFECTS OF THE
TAX CUTS AND JOBS ACT AND
APPLICATION FOR TRADE SECRET PROTECTION FOR CONSIDERATION OF
THE PUBLIC SERVICE COMMISSION RATE IMPACT AND ACCOUNTING
TREATMENT INVESTIGATION
CASE NO. PU-17-490

Dear Mr. Nitschke:

Northern States Power Company, doing business as Xcel Energy, respectfully submits an original and eleven (11) copies of the enclosed Initial Comments in the above-referenced case pursuant to Commission Order dated January 10, 2018.

The Company also respectfully submits an original and eleven (11) copies of the enclosed Application for Trade Secret Protection in this case, and one copy of the trade secret version of the attachments to the Company's Initial Comments, which have been placed in a sealed envelope and labeled **PROTECTED INFORMATION – PRIVATE**, in accordance with Section 69-02-09-02 of the North Dakota Administrative Code.

The purpose of our request for Trade Secret Protection is to protect against public disclosure of trade secret, personnel, and other commercially-sensitive information that may be provided to the North Dakota Public Service Commission (Commission or NDPSC), its staff, or staff consultants either via responses to data requests, in pre-filed testimony, that may arise at hearing, as may be required in any settlement discussion, or as otherwise would need to be provided in the course of the case.

Portions of the enclosed attachments to the Company's Initial Comments have been marked as NOT PUBLIC INFORMATION as they contain information that could have economic value to potential to analysts, investors, and potential investors in the Company; and other entities who may compete with the Company for available resources. Furthermore, cost and resource information may have independent value in the marketplace, and if left unprotected, could be harmful for the Company's customers in North Dakota.

Please contact me at aakash.chandarana@xcelenergy.com, or 612-215-4663 or Charles Burdick at charles.r.burdick@xcelenergy.com or 612-330-6646, if you have any questions regarding this filing.

SINCERELY,

/s/

AAKASH H. CHANDARANA
REGIONAL VICE PRESIDENT RATE & REGULATORY AFFAIRS

Enclosure

STATE OF NORTH DAKOTA
BEFORE THE
NORTH DAKOTA PUBLIC SERVICE COMMISSION

PUBLIC SERVICE COMMISSION
RATE IMPACT AND ACCOUNTING TREATMENT
INVESTIGATION

CASE NO. PU-17-490

APPLICATION FOR TRADE SECRET PROTECTION

Northern States Power Company (Xcel Energy or the Company) respectfully requests the North Dakota Public Service Commission (Commission) enter a trade secret protective order in the above-referenced Case pursuant to Chapter 69-02-09 of the North Dakota Administrative Code. The purpose of the requested protective order is to protect trade secret and commercial information as defined by N.D.C.C. § 44-04-18.4 from public disclosure pursuant to N.D.C.C. § 44-04-18 *et seq.* or any other applicable public disclosure laws.

In accordance with Section 69-02-09-02 of the North Dakota Administrative Code, one copy of the trade secret material is provided in the enclosed sealed envelope which is labeled: **PROTECTED INFORMATION – PRIVATE**.

1. A general description of the nature of the information sought to be protected.

The information for which the Company seeks protection includes financial information based on preliminary, pro-forma estimates of the impact of the 2017 Federal Tax Act on its North Dakota jurisdictional revenue requirements and rates. These estimates are subject to further refinement and/or change. The 2017 data is based on ten months of actuals and two months of forecast for both capital and operating revenue and expenses. Actual results will differ when reported on May 1, 2018. The 2018 data is entirely based on forecasts. The pro-forma calculations are all-inclusive revenue requirements calculations that include—but do not separate out—riders.

Such information has been or will be marked as **TRADE SECRET** in our responses to data requests and in the pre-filed testimony submitted by the Company, or may arise or be discussed in the hearing or hearings in this matter.

The Company states that this information is trade secret because it is information that "(1) [d]erives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons that can obtain economic value from its disclosure or use; and (2) [i]s the subject of efforts that are reasonable under the circumstances to maintain the secrecy of the information," as provided in N.D.C.C. § 44-04-18.4(2)(d). The Company also states that the information sought to be protected meets the definition of "trade secret" set forth in N.D.C.C. § 47-25.1-01(4).

2. An explanation of why the information derives independent economic value, actual or potential, from not being generally known to other persons.

The information could have economic value to potential investors in the Company and other investors in utility companies; other entities who may compete with the Company for available resources such as financing; and to similarly situated utilities who are also impacted by the changes in law that is the subject of these cases. Furthermore, cost and resource information may have independent value in the marketplace, and if left unprotected, could be harmful for the Company's customers in North Dakota.

Importantly, this information is not yet final and has not yet been made publicly available through appropriate filings with the Commission and federal securities regulators. Providing this information publicly to the Commission may trigger reporting requirements for which the data being provided cannot meet.

3. An explanation of why the information is not readily ascertainable by proper means by other persons.

The confidentiality of this information has been maintained by Xcel Energy. The information is not disclosed to the public or to persons other than employees or authorized agents who need to know the information to fulfill their responsibilities in connection with the subject matter of the information.

The Company has requested that this – and similar types of this -- information be treated as trade secret in all of its regulatory filings and other sharing of this information with governmental entities.

4. A general description of the persons or entities that would obtain economic value from disclosure or use of the information.

The persons or entities that would obtain economic value from disclosure or use of the information include investors and potential investors in the Company; entities with which Xcel Energy currently conducts or may conduct business; and other utilities. Disclosure of the information sought to be protected would provide these persons and entities prior foreknowledge of information not readily available to the public.

5. A specific description of known competitors and competitors' goods and services that are pertinent to the tariff or rate filing.

See response to No. 4 above.

6. A description of the efforts used to maintain the secrecy of the information.

See response to No. 3 above.

Respectfully submitted this 15th day of February, 2018

BRIGGS AND MORGAN, P.A.

By: */s/ Zeviel Simpser*

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PUBLIC SERVICE COMMISSION
STATE OF NORTH DAKOTA

Randy Christmann	Chair
Julie Fedorchak	Commissioner
Brian Kroshus	Commissioner

PUBLIC SERVICE COMMISSION
RATE IMPACT AND ACCOUNTING TREATMENT
INVESTIGATION

CASE NO.: PU-17-490

Initial Comments

INTRODUCTION

On December 22, 2017, the Tax Cuts and Jobs Act (TCJA) was signed by the President, which enacted significant changes to the Internal Revenue Code. While we are currently evaluating the precise impacts of the new legislation, we believe that this tax reform is beneficial—both for Xcel Energy customers generally and for our North Dakota customers in particular.

As an initial matter, we note that it has been an accepted tenet of ratemaking that revenues and expenses rise and fall between rate cases and, generally speaking, corrective action is not taken in response to any particular aspect of those fluctuations. Indeed, in their reviews of the Company's annual regulatory earnings reports, the focus of the Commission Staff has historically been on the fundamental question: Is the utility overearning relative to its authorized return on equity? We mention this at the outset to reflect on the foundational tenets that have governed—and we believe should continue to govern—the regulatory framework in North Dakota.

That said, the Company acknowledges that the recently passed TCJA is the most significant piece of federal tax legislation that has been passed in over thirty years. Given the character of the reform and the magnitude of its estimated impacts, the Company is committed to working with the Commission and its Staff to identify a path forward that delivers the value of the tax reforms to our North Dakota customers.

BACKGROUND

The implications of the TCJA are more complex than the headline modification of the corporate tax rate. While it is true that the TCJA modified the federal corporate tax rate from 35 percent to 21 percent beginning January 1, 2018, that change reflects one component of a complex and interrelated law. Indeed, the TCJA exceeds 400 pages with multiple subparts and requirements that reflect significant changes from the status quo. Along with the corporate tax rate, several major elements of the TCJA will have potentially significant impacts and require considerable attention. Issues that may need to be addressed include the following:

- ***Reduced Corporate Tax Rate (from 35 percent to 21 percent).*** This results in excess deferred income taxes returned over average remaining lives, but requires a complex and time-intensive analysis of excess deferred taxes.

- ***Bonus Depreciation Changes.*** Under prior law, bonus depreciation applicable to regulated utilities was to be phased out during 2018 and 2019. The loss of bonus depreciation under the TCJA is expected to increase rate base in the near term.

- ***Recovery Period for Net Operating Losses (NOLs).*** NOL recovery periods may need to be adjusted due to changes in tax law relative to utilization limitations.

- ***Lost Deductibility of Certain Expenses.*** The deductibility of certain employee compensation, lobbying, and employee expenses is reduced, partially offsetting the benefits of the reduced corporate tax rate.

- ***Negative Cash Flow Impacts.*** The TCJA affects credit metrics such as the Cash From Operations to Debt (CFO/Debt) ratio on which credit rating agencies rely heavily, due to lost bonus depreciation, reduced revenues, and increased rate base. This deterioration of credit metrics, in turn, requires an assessment of what adjustments may be needed to retain the Company's credit rating under the new law. These adjustments may include increasing the annual depreciation expense, increasing the Company's equity ratio in its capital structure, and/or increasing the Company's authorized ROE. Any of these potential adjustments will affect the cost of service.

Notwithstanding the complexity of the TCJA, we have engaged in a preliminary analysis in order to provide the Commission with a directional view as to the impacts of tax reform. We note that our analysis is evolving along with our understanding of the TCJA and its impacts. Accordingly, we expect that certain values may shift and additional components may be identified as we go through our year-end financial processes, as our understanding of the TCJA matures, and as other governmental guidance becomes available. For example, on February 9, 2018, the President signed a short-term funding bill that includes certain utility-specific tax provisions. While we do not believe any of these provisions affect our cost of service, we are currently reviewing details of the new law.

As ordered, in this filing we provide information in compliance with Order Point 3 of the Commission's January 10, 2018 Order in this Case, stating that utilities:

> *…shall file information in this investigation regarding the impact of the Tax Reform, with supporting calculations, and shall file comments regarding the appropriate regulatory treatment.*

As the Commission and utilities work to develop solutions that reflect the impact of the TCJA, we believe it is appropriate for the Commission to consider the specific circumstances of each utility and reflect the impacts for each utility differently. The Commission should consider such things as: (1) the timing of the utility's last rate case; (2) the status of a current rate case; (3) timing of a planned future rate case that may be postponed; and (4) what rider, true-up, and earnings-sharing mechanisms are already in place that may be utilized. We believe that we have identified a proposed path forward that fairly accounts for the true impacts of the TCJA while delivering the value of those reforms to customers.

ANALYSIS

As noted above, the provisions of the Tax Cuts and Jobs Act are complex and varied. In this section, we first provide a preliminary estimate of the overall impact of the TCJA on our costs of service, and schedules with supporting calculations. We then describe in detail the various tax law changes impacting the cost of service and utility credit metrics. Finally, we discuss the Company's existing electric and natural gas recovery mechanisms, and provide potential options for delivering the benefits of the TCJA to our North Dakota customers.

Order Point 2 of the Commission's January 10, 2018 Order requires that the Company "apply the appropriate regulatory accounting treatment, including the use of regulatory assets and liability accounts, to record the impact of the Tax Reform beginning January 1, 2018, for Commission consideration." To comply with the

Commission's Order, the Company must determine how to best reflect the impact of the TCJA without the benefit of recent general rate case filings and related test year data for either our electric or natural gas operations in North Dakota.

We have therefore made an effort to estimate the impacts of the TCJA based on 2018 and 2019 jurisdictional financial forecasts that, while not "rate case quality," are more current than previously filed test year data and thus we believe to be more relevant. This analysis captures the cost of service impacts of not only the federal tax rate change, but the other provisions of the TCJA such as the elimination of certain deductions and the normalized flow-back of deferred tax assets and liabilities, while also updating our cost service for other items such as rate base and operating and maintenance expenses.

We estimate that, all else being equal, the costs of service (i.e., annual revenue requirements) for electric operations decrease by approximately 5 percent compared to what they would be without the TCJA. We similarly estimate the reduction in total natural gas costs of service to be approximately 2 percent. The 2018 and 2019 updated cost of service analysis indicates that the TCJA will reduce the Company's electric revenue requirement needs by approximately $11-13 million. With respect to its natural gas operations, revenue requirements decrease by approximately $1.0-1.5 million.[1]

It is important for the Commission to note that the Settlement Agreement in the Company's last electric rate case in North Dakota includes an earnings-sharing mechanism to protect against actual earnings exceeding the authorized level in any given year. So, even without any additional regulatory accounting action, all earnings over the authorized ROE would be refunded to customers per this mechanism.

Please see Exhibit A for electric and Exhibit B for natural gas operations, which each provide:

- Revenue requirements forecast for 2018 before and after the new tax law impacts.

[1] The Company stresses, however, that these amounts do not represent appropriate amounts for deferral (i.e., accruals for potential refund) as they do not properly take into consideration the costs approved in the most recent rate case. While we have provided calculations to reflect the cost of service impact of the tax law changes for discussion in this filing, we continue working to determine the methodology that best reflects an appropriate deferral amount for 2018. We will keep the Commission informed and provide updates as we work to identify the 2018 deferral amount.

- Revenue requirements forecast for 2019 before and after the new tax law impacts.

1. Current Tax Rate Impacts

Changing the federal tax rate has a direct impact on the income tax expense and the revenue conversion factor used to "gross up" the revenue requirement of items subject to tax to account for the income taxes the company is required to pay. Ultimately, the tax rate decrease lowers income taxes and revenue requirements, which is primarily driven by the gross up on the equity return on rate base.

The revenue conversion factor is calculated using the statutory composite tax rate, which effectively combines the state and federal income tax rates. The table below provides the revenue conversion factor for North Dakota before and after tax reform:

	Before TJCA	**After TJCA**
Federal Tax rate	35.0%	21.0%
State Statutory rate	4.3%	4.3%
Statutory Composite rate	37.8%	24.4%
Revenue Conversion Factor (1/(1-Statutory Comp. Tax Rate))	1.608	1.323
Corporate Composite rate	40.8%	28.1%

In North Dakota, prior to tax reform, for every dollar of operating income deficiency, 60.8 cents is added to reflect the amount of income taxes paid on the revenue collected (1 + 0.608 = 1.608 revenue conversion factor). After tax reform, 32.3 cents is added to reflect income taxes paid on revenue collected (1 + 0.323 = 1.323).

2. Deferred Tax Rate Impacts

In recent years, the Company has experienced deferred tax rate impacts which are the result of tax depreciation that occurs faster than book depreciation. On a Company-wide basis, the Company has accumulated several billion dollars of Deferred Tax Liabilities (DTLs) that are reflected in the cost of service as a reduction to rate base as Accumulated Deferred Income Taxes (ADIT).

These liabilities were booked assuming the previous 35 percent federal corporate income tax rate and, as such, they must be adjusted to the new 21 percent federal corporate income tax rate. This adjustment results in excess ADIT. The excess ADIT may not be returned to customers any faster than over the remaining lives of the underlying assets, which will increase rate base and reduce deferred income tax expense.

Plant Adjustments

There are two primary impacts on plant-related deferred taxes of the TCJA. First, bonus depreciation has been eliminated for utilities. As a result, NSPM has estimated the revenue requirement associated with eliminating the effect of bonus depreciation related to plant additions after the effective date on plant current and deferred tax expense.

Second, the lower corporate federal income tax rate impacts the calculation of deferred taxes. The plant-related deferred taxes were recalculated at the new lower federal tax rate, but because of IRS normalization rules, the lower federal tax rate is applied only to those timing differences where the vintage balance was increasing. For deferred tax liabilities, this means that current tax depreciation is greater than the book depreciation. For the timing differences where the vintage balance was decreasing (i.e., current year book depreciation is greater than the tax depreciation), NSPM used the average rate assumption method (ARAM). ARAM is a method where the tax rate for the deferred tax expense calculation is modified to an average of all the tax rates used when the balances were growing. This assures that the benefit of a tax rate change on the deferred tax balance is ratably shared with all customers receiving benefit from the asset over the remaining life of that asset. Through this method, the excess ADIT is flowed back to customers at the historical rates.

Non-plant-related Federal Deferred Income Taxes

The change in federal tax rate also caused NSPM to revalue its non-plant deferred tax assets and liabilities. To account for this reduction in non-plant tax rates, NSPM decreased its non-plant Deferred Tax Assets (DTAs) and DTLs. Because portions of these DTAs and DTLs were formerly credited to or recovered from customers, the corresponding rate changes were recorded to a regulatory asset or liability and will be similarly included in rate base. NSPM is proposing to recover the regulatory asset and pay back the regulatory liability over varying periods.

3. Production Tax Credit Impacts and Wind Assets

The TCJA preserved Production Tax Credits and the Safe Harbor provisions. The phase-out of Production Tax Credits from 2017 to 2019 also remains in effect. As this Commission knows, NSPM is in the process of expanding its wind capacity, including investment in 1,550 MW of new wind generation. The federal Production Tax Credit (PTC) plays an important role in wind generation in that it helps ensure that wind will deliver a great value to customers. It is important to note that the TCJA does not change the value of PTCs. They will continue to be earned at $0.024/kWh, adjusted annually for inflation. However, in ratemaking, the PTCs are grossed-up for taxes to calculate the amount to be refunded to customers. Therefore, the TCJA change in corporate tax rate from 35 percent to 21 percent reduces the tax gross-up factor and the revenue requirement amount to be credited to customers.

The TCJA also impacts the current and deferred taxes on the wind capital investments and decreases revenue requirements due to lower tax rates. However, these decreases are offset by the PTC revenue requirements impacts discussed above.

4. Net Operating Loss

The elimination of bonus tax depreciation under the TCJA results in higher taxable income in the current year as tax depreciation expense will only be the Modified Accelerated Cost Recovery System (MACRS) portion for the asset rather than the 50 percent bonus deprecation and the MACRS portion on the remaining 50 percent of the asset. The higher taxable income in isolation would result in higher utilization of the Net Operating Loss in 2018.

Another key provision of the TCJA is Net Operating Losses can only be utilized up to 80 percent of taxable income rather than offsetting the entire taxable income. This provision in isolation would result in lower utilization in each year stretching out the consumption of the Net Operating Loss further into the future. It is worth noting that under tax reform a company can use tax credits, subject to limitations, to further reduce a company's tax payable. With this change, the Company is planning to utilize more PTCs earlier than previously forecasted. Finally, the TCJA eliminated NOL carrybacks starting in 2018.

5. Miscellaneous Provisions

Interest Expense Deductibility
The TCJA allows utilities to continue to deduct interest expense. The cost of service will continue to reflect a tax deduction for debt interest.

Investment Tax Credit (ITC)
There is no change in the treatment of the ITC due to the TCJA. Projects that commence construction before 2020 continue to qualify for 30 percent ITC. Also, the ITC continues to have a phase-down for projects commencing construction in 2020 (26 percent), 2021 (22 percent) and after 2021 (10 percent). The cost of service will continue to reflect use of ITCs when applicable.

No Section 199 deduction
The TCJA eliminated the Manufacturer's Production Deduction (Section 199 Deduction), thus the Company will no longer apply such deductions in the cost of service.

Other Deductions Modified or Eliminated
The TCJA also modified various other deductions including the meals and entertainment deduction. Further, the TCJA eliminated several deductions that are relevant to the Company's consolidated financials, but are not included in ratemaking such as lobbying and executive performance-based compensation.

Corporate Alternative Minimum Tax (AMT)
The TCJA eliminated the Corporate Alternative Minimum Tax. While potentially relevant to the Company's consolidated financials, the cost of service never modeled a Corporate AMT and so there is no change for ratemaking.

6. Effect on Credit Metrics

In general, the reduction to revenue resulting from the TCJA will have a negative credit impact on utilities. The lower income tax rate will be passed through to customers via a lower revenue requirement on the equity return tax gross-up. Net income will remain unaffected (statically before accounting for the higher rate base over time), but Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) will be lower. Furthermore, the lower corporate rate will reduce the amount of deferred income taxes a utility recognizes, which have supported a significant portion of the sector's cash from operations in recent years. Lastly, tax reform also includes the elimination of bonus depreciation effective Q4 2017.

Bonus depreciation was previously expected to phase out in 2019. Losing bonus deductions will also lower the amount of deferred taxes, further reducing cash flow from operations.

Each of the three major credit rating agencies has published utility sector reports in the past month on the negative credit impacts of tax reform. It is this cash flow impact that led Moody's Investors Service to change the rating outlook from stable to negative for 24 regulated utilities and utility holding companies.[2] Southwestern Public Service Company, an Xcel Energy utility that operates in Texas and New Mexico, was one of the companies identified in the Rating Action.

Generally, three avenues exist that could help mitigate the credit risks presented by tax reform. The first option is for the utility to increase its equity portion of capitalization via higher regulated equity ratios. The second option is to increase the amount of book depreciation expense a utility recognizes, which would support higher cash flow from operations. The third is to earn a higher return, via a higher authorized return on equity. The credit rating agencies understand the different levers available to mitigate the negative credit impacts and are closely following the regulatory proceedings to see what actions are taken.

7. Existing Recovery Mechanisms

Electric

In North Dakota the Company has the following electric rate mechanisms:

- o Base Rates
- o Fuel Cost Rider (FCR)
- o Transmission Cost Recovery Rider (TCR)
- o Renewable Energy Rider (RER)

- Base Rates were set in the last North Dakota rate case, Case No. PU-12-813, which included a stay-out provision through 2016 and an excess earnings refund mechanism to protect customers against the Company earning higher than the authorized ROE. The moratorium was extended for the additional year 2017 through the First Revised Negotiated Agreement approved in that case. The earnings refund mechanism provides protection in the near term for North Dakota customers so that benefits of the tax law change above and beyond the Company's authorized return will be automatically refunded to customers.

[2] Moody's Investors Service Rating Action, Global Credit Research, January 19, 2018. Provided as Exhibit C.

- The Fuel Cost Rider does not contain any items that require a tax calculation and is unaffected by the tax law change. That said, certain Power Purchase Agreements (PPAs) are recovered through the FCR. It is possible in the future that some of the prices to the Company's energy vendors may change as a result of the tax law changes. We are not aware of any such changes at this time.

- The Transmission Cost Recovery rider will be affected by the changes on current taxes and deferred taxes as described above. We currently forecast that the TCR revenue requirements will net increase. This is because the TCR includes a revenue credit from transmission facilities that are regionally shared among other utilities. Since revenue requirements in general go down, the revenue credit related to these regionally shared facilities also goes down. We forecast that for the TCR, this impact from regionally shared facilities is greater than the direct impact of the decrease in requirements on the select transmission projects included in the rider. Customers will automatically see these differences as part of the true-up process in the rider.

- The Renewable Energy Rider, which includes recovery of projects located only in North Dakota, will also be affected by the tax law changes, with revenue requirements forecasted to increase due to the TCJA. Customers will automatically see these differences as part of the true-up process in the rider. We also note the RER revenue requirement reflects actual PTCs related to the North Dakota projects included. Thus, the PTC revenue requirements will reflect the change in the corporate tax rate gross-up factor, as described above, when included in the rider.

Natural Gas

In North Dakota the Company's natural gas rates are governed by base rates and a Cost of Gas charge.

The Cost of Gas charge is unaffected by the TCJA. For base rates, we estimate the revenue requirement value of the TCJA to be approximately (2) percent compared to current base rates. That amounts to an estimated overall impact of approximately $1-2 million.

Our estimate of the impact of the TCJA on 2018 natural gas revenue requirements is based on the 2018 forecasted capital and operating revenues (based on current tariffed rates) and expenses as of December 2017 to isolate the estimated impact of Tax legislation.

8. Capturing TCJA Benefits for Customers

For both electric and natural gas operations, the 2018 and 2019 revenue, expense, and rate base projections under the previous tax laws indicated earnings deficiencies such that the Company would certainly need to file requests for base rate increases in the near future. Refunding the revenue requirement reductions brought about by the TCJA will not mitigate the need for a rate case, but instead would likely create instability in rates as customers would see short-term decreases followed by potential base rate increases.

For example, our analysis indicates that even with the TCJA reducing electric costs of service by approximately $11.6 million in 2018, the Company would have a revenue sufficiency of just **[TRADE SECRET BEGINS TRADE SECRET ENDS]** based on the authorized return on equity (ROE). In 2019, the Company would expect to see a revenue deficiency of approximately **[TRADE SECRET BEGINS TRADE SECRET ENDS]** With respect to its natural gas operations, the Company estimates deficiencies of **[TRADE SECRET BEGINS TRADE SECRET ENDS]** in 2018 and **[TRADE SECRET BEGINS TRADE SECRET ENDS]** in 2019 after the TCJA impacts.

In light of this, the Company believes the most efficient and administratively effective option for passing the benefits of the tax law change to our customers consistent with general ratemaking principles is to extend the current electric rate case moratorium for an additional identified multi-year term – and retain the existing earnings sharing mechanism during that period to cap earnings at the currently authorized level.

Beyond the rate relief provided by freezing rates over a period that would have otherwise likely experienced one or more rate increases, there may be other avenues for the Company to deliver additional value to customers at current rates. Potential options we believe should be considered include directing available cost savings toward additional capital investments to improve North Dakota distribution reliability.

For the Company to deliver additional value to natural gas customers at current rates, a similar rate moratorium could be instituted, and available cost savings could be directed toward other known future costs. For example, although the Company has not filed for a natural gas rate increase since 2007, we note that NSPM's North Dakota natural gas earnings were addressed in the Company's request for deferred accounting for costs related to investigation and clean-up of a Fargo manufactured gas plant (MGP), Case No. PU-15-514. In that case, the Company proposed, and the Commission approved, short-term partial funding of the MGP costs using earnings in excess of an agreed-upon base earnings threshold. As this MGP work is currently in progress in 2018, savings that may be realized as a result of the TCJA could potentially be used to fund a portion of this work.

We will commit to work with Commission Staff on other options to optimally address the future impacts of the TCJA, with the goal of developing a formal proposal to bring forward for the Commission's consideration.

CONCLUSION

We will continue to analyze and determine the impacts of the federal tax reform, and we look forward to the opportunity to work with Staff to find ways to deliver the value of the TCJA impacts to North Dakota customers in an efficient and meaningful way. We appreciate the Commission's approach to this issue, which provides the Company the time necessary to fully and accurately understand the impacts of tax reform and to work with Staff to identify a solution that maximizes the impact of this significant and unusual change.

PUBLIC DOCUMENT
TRADE SECRET DATA - INFORMATION HAS BEEN EXCISED

NSP North Dakota Electric Operations
Proforma Estimates of Tax Rate Change
Dollars in millions

[TRADE SECRET BEGINS…

Line		
1	Rate Base	A
2	Required Operating Income	B = A * N
3	Operating Income	C
4	Operating Income Deficiency	D = B - C
5	Revenue Requirement	E = D * S
6	Return on Equity (ROE)	
7	Net Operating Income	F = C
8	Debt Interest (Rate Base * Weighted Cost of Debt)	G = A * L
9	Earnings Available for Common	H = F - G
10	Equity Rate Base (Rate Base * Equity Ratio)	I = A * Q
11	Authorized ROE	J
12	Earned ROE (earnings for Common / Equity)	K = H / I
13	Wtd Cost of Debt	L
14	Wtd Cost of Equity	M
15	Authorized Rate of Return	N = L + M
16	Earned ROR (Operating Income / Rate Base)	O = C / A
17	Debt Ratio	P
18	Equity Ratio	Q
19	Composite Tax Rate (CTR)	R
20	Revenue Conversion Factor (1/1-CTR)	S

… TRADE SECRET ENDS]

This material includes forward-looking statements subject to certain risks, uncertainties, and assumptions. They include projected earnings, cash flows, capital expenditures, and other statements; may be identified by words such as “anticipate, estimate, expect, projected, objective, outlook, possible, potential” or similar expressions; and speak only as of the date they are made. Factors that could cause actual results to differ materially include, but are not limited to: general economic conditions, including inflation rates, monetary fluctuations, and their impact on capital expenditures; energy industry business conditions, including the risk of a slowdown in the U.S. economy or delay in growth recovery; trade, fiscal, taxation, and environmental policies in areas where Xcel Energy has a financial interest; customer business conditions; competitive factors; unusual weather; geopolitical events, including war and acts of terrorism; state, federal, and foreign legislative and regulatory initiatives that affect cost and investment recovery, have an impact on rates or have an impact on asset operation or ownership, or impose environmental compliance conditions; structures that affect the speed and degree to which competition enters the electric and natural gas markets; costs and other effects of legal and administrative proceedings, settlements, investigations, and claims; financial or regulatory accounting policies regulatory bodies impose; availability or cost of capital; work force factors; and other risk factors Xcel Energy lists in our most recent 10-K report to the SEC, including Item 1A - Risk Factors and Exhibit 99.01, as they may be updated in our subsequent 10-Q and 8-K reports.

(1) Proforma 2018 & 2019 comparisons based on the 2018 & 2019 forecasted capital and operating revenues (based on current tariffed rates) and expenses as of December 2017 to isolate the estimated impact of Tax legislation. Due to the complexity of the changes associated with the TCJA these estimates are subject to change.

(2) Proforma estimate for the "Assume 35% FTR" columns assumes no tax law changes impacts for 2018, 2019, or prior years.

(3) Proforma calculation does not separate out any riders, it is an all inclusive revenue requirement calculation. Rider calculations would incorporate tax rate changes and reflect the effects on revenue requirements through the tracker and into the rate calculation in the next rider filing.

NSP North Dakota Gas Operations
Proforma Estimates of Tax Rate Change
Dollars in millions

[TRADE SECRET BEGINS…

Line		
1	Rate Base	A
2	Required Operating Income	B = A * N
3	Operating Income	C
4	Operating Income Deficiency	D = B - C
5	Revenue Requirement	E = D * S
6	Return on Equity (ROE)	
7	Net Operating Income	F = C
8	Debt Interest (Rate Base * Weighted Cost of Debt)	G = A * L
9	Earnings Available for Common	H = F - G
10	Equity Rate Base (Rate Base * Equity Ratio)	I = A * Q
15	Authorized ROE	J
11	Earned ROE (earnings for Common / Equity)	K = H / I
12	Wtd Cost of Debt	L
13	Wtd Cost of Equity	M
14	Authorized Rate of Return	N = L + M
6	Earned ROR (Operating Income / Rate Base)	O = C / A
16	Debt Ratio	P
17	Equity Ratio	Q
18	Composite Tax Rate (CTR)	R
19	Revenue Conversion Factor (1/1-CTR)	S

…TRADE SECRET ENDS]

This material includes forward-looking statements subject to certain risks, uncertainties, and assumptions. They include projected earnings, cash flows, capital expenditures, and other statements; may be identified by words such as “anticipate, estimate, expect, projected, objective, outlook, possible, potential” or similar expressions; and speak only as of the date they are made. Factors that could cause actual results to differ materially include, but are not limited to: general economic conditions, including inflation rates, monetary fluctuations, and their impact on capital expenditures; energy industry business conditions, including the risk of a slowdown in the U.S. economy or delay in growth recovery; trade, fiscal, taxation, and environmental policies in areas where Xcel Energy has a financial interest; customer business conditions; competitive factors; unusual weather; geopolitical events, including war and acts of terrorism; state, federal, and foreign legislative and regulatory initiatives that affect cost and investment recovery, have an impact on rates or have an impact on asset operation or ownership, or impose environmental compliance conditions; structures that affect the speed and degree to which competition enters the electric and natural gas markets; costs and other effects of legal and administrative proceedings, settlements, investigations, and claims; financial or regulatory accounting policies regulatory bodies impose; availability or cost of capital; work force factors; and other risk factors Xcel Energy lists in our most recent 10-K report to the SEC, including Item 1A - Risk Factors and Exhibit 99.01, as they may be updated in our subsequent 10-Q and 8-K reports.

(1) Proforma 2018 & 2019 comparisons based on the 2018 & 2019 forecasted capital and operating revenues (based on current tariffed rates) and expenses as of December 2017 to isolate the estimated impact of Tax legislation. Due to the complexity of the changes associated with the TCJA these estimates are subject to change.

(2) Proforma estimate for the "Assume 35% FTR" columns assumes no tax law changes impacts for 2018 or prior years.

MOODY'S
INVESTORS SERVICE

Rating Action: Moody's changes outlooks on 25 US regulated utilities primarily impacted by tax reform

Global Credit Research - 19 Jan 2018

New York, January 19, 2018 -- Moody's Investors Service, ("Moody's") has changed the rating outlooks to negative from stable for 24 regulated utilities and utility holding companies; and to stable from positive for one utility holding company in the United States. The short-term and long-term ratings for all 25 companies were affirmed.

RATINGS RATIONALE

"Today's action primarily applies to companies that already had limited cushion in their rating for deterioration in financial performance, will be incrementally impacted by changes in the tax law and where we now expect key credit metrics to be lower for longer," said Jim Hempstead, a Managing Director at Moody's. "Utilities will work closely with state regulators to try to mitigate the negative impact of tax reform and in some cases they may seek to refine their corporate financial policies. Where successful, their rating outlooks could revert to stable."

Tax reform is credit negative for US regulated utilities because the lower 21% statutory tax rate reduces cash collected from customers, while the loss of bonus depreciation reduces tax deferrals, all else being equal. Moody's calculates that the recent changes in tax laws will dilute a utility's ratio of cash flow before changes in working capital to debt by approximately 150 - 250 basis points on average, depending to some degree on the size of the company's capital expenditure programs. From a leverage perspective, Moody's estimates that debt to total capitalization ratios will increase, based on the lower value of deferred tax liabilities.

The change in outlook to negative from stable for the 24 companies affected in this rating action primarily reflects the incremental cash flow shortfall caused by tax reform on projected financial metrics that were already weak, or were expected to become weak, given the existing rating for those companies. The negative outlook also considers the uncertainty over the timing of any regulatory actions or other changes to corporate finance polices made to offset the financial impact.

The change in outlook to stable from positive for American Electric Power Company, Inc. (AEP, Baa1 stable) reflects Moody's calculations that the projected ratio of cash flow before changes in working capital to debt, incorporating the effects of tax reform, will remain in the mid-teens range. At this level, Moody's believes AEP's Baa1 rating is appropriate.

The vast majority of US regulated utilities, however, continue to maintain stable rating outlooks. We do not expect the cash flow reduction associated with tax reform to materially impact their credit profiles because sufficient cushion exists within projected financial metrics for their current ratings. Nonetheless, further actions could occur on a company specific basis.

Over the next 12 to 18 months, Moody's will continue to monitor the financial impact of tax reform on each company, including its regulatory approach to rate treatment and any changes to corporate finance strategies. This will include balance sheet changes due to the reclassification of excess deferred tax liabilities as a regulatory liability and the magnitude of any amounts to be refunded to customers. If the financial impact of tax reform is more severe than Moody's initial estimates or the companies fail to materially mitigate any weaknesses in their financial profiles, the ratings could be downgraded.

That said, Moody's expects that most utilities will attempt to manage any negative financial implications of tax reform through regulatory channels. Corporate financial policies could also change. The actions taken by utilities will be incorporated into the credit analysis on a prospective basis. As a result, it is conceivable that some companies will sufficiently defend their credit profiles. For these companies, it is possible for the outlook to return to stable.

Potential regulatory offsets to tax-related cash leakage could include: accelerated cost recovery of certain regulatory assets or future investment; changes to the equity layer or allowed ROEs in rates, and other actions. Changes to corporate financial policies could include changes to capitalization, the financing of future investments, dividend growth, or others. Some of these corporate measures could have a more immediate boost to projected metrics than certain regulatory provisions, which may take time to approve and implement.

Outlook Actions:

..Issuer: American Electric Power Company, Inc.

....Outlook, Changed To Stable From Positive

..Issuer: Avista Corp.

....Outlook, Changed To Negative From Stable

..Issuer: Avista Corp. Capital II

....Outlook, Changed To Negative From Stable

..Issuer: Duke Energy Corporation

....Outlook, Changed To Negative From Stable

..Issuer: Entergy Corporation

....Outlook, Changed To Negative From Stable

..Issuer: New Jersey Natural Gas Company

....Outlook, Changed To Negative From Stable

..Issuer: Northwest Natural Gas Company

....Outlook, Changed To Negative From Stable

..Issuer: ONE Gas, Inc

....Outlook, Changed To Negative From Stable

..Issuer: Piedmont Natural Gas Company, Inc.

....Outlook, Changed To Negative From Stable

..Issuer: Public Service Company of Oklahoma

....Outlook, Changed To Negative From Stable

..Issuer: Questar Gas Company

....Outlook, Changed To Negative From Stable

..Issuer: South Jersey Gas Company

....Outlook, Changed To Negative From Stable

..Issuer: Alabama Power Capital Trust V

....Outlook, Changed To Negative From Stable

..Issuer: Alabama Power Company

....Outlook, Changed To Negative From Stable

..Issuer: Southern Company (The)

....Outlook, Changed To Negative From Stable

..Issuer: Southern Elect Generating Co

....Outlook, Changed To Negative From Stable

..Issuer: Southwestern Public Service Company

....Outlook, Changed To Negative From Stable

..Issuer: Wisconsin Gas LLC

....Outlook, Changed To Negative From Stable

..Issuer: American Water Capital Corp.

....Outlook, Changed To Negative From Stable

Issuer: American Water Works Company, Inc.

....Outlook, Changed To Negative From Stable

Outlook Actions:

..Issuer: Consolidated Edison Company of New York, Inc.

....Outlook, Changed To Negative From Stable

..Issuer: Consolidated Edison, Inc.

....Outlook, Changed To Negative From Stable

..Issuer: Orange and Rockland Utilities, Inc.

....Outlook, Changed To Negative From Stable

..Issuer: Brooklyn Union Gas Company, The

....Outlook, Changed To Negative From Stable

..Issuer: KeySpan Gas East Corporation

....Outlook, Changed To Negative From Stable

Affirmations:

..Issuer: American Electric Power Company, Inc.

.... Commercial Paper, Affirmed P-2

....Senior Unsecured Shelf, Affirmed (P)Baa1

....Junior Subordinated Shelf, Affirmed (P)Baa2

....Senior Unsecured Regular Bond/Debenture, Affirmed Baa1

..Issuer: Avista Corp.

.... Issuer Rating, Affirmed Baa1

....Senior Secured First Mortgage Bonds, Affirmed A2

....Underlying Senior Secured First Mortgage Bonds, Affirmed A2

....Senior Secured Medium-Term Note Program, Affirmed (P)A2

....Senior Secured Regular Bond/Debenture, Affirmed A2

....Senior Unsecured Medium-Term Note Program, Affirmed (P)Baa1

..Issuer: Avista Corp. Capital II

....Pref. Stock Preferred Stock, Affirmed Baa2

..Issuer: Duke Energy Corporation

.... Issuer Rating, Affirmed Baa1

....Junior Subordinated Regular Bond/Debenture, Affirmed Baa2

....Senior Unsecured Shelf, Affirmed (P)Baa1

....Senior Unsecured Bank Credit Facility, Affirmed Baa1

....Senior Unsecured Commercial Paper, Affirmed P-2

....Senior Unsecured Regular Bond/Debenture, Affirmed Baa1

..Issuer: Entergy Corporation

.... Issuer Rating, Affirmed Baa2

....Senior Unsecured Commercial Paper, Affirmed P-2

....Senior Unsecured Regular Bond/Debenture, Affirmed Baa2

....Senior Unsecured Shelf, Affirmed (P)Baa2

..Issuer: New Jersey Natural Gas Company

.... Commercial Paper, Affirmed P-1

..Issuer: Northwest Natural Gas Company

.... Commercial Paper, Affirmed P-2

....Senior Secured Medium-Term Note Program, Affirmed (P)A1

....Senior Unsecured Medium-Term Note Program, Affirmed (P)A3

....Senior Secured Shelf, Affirmed (P)A1

....Senior Unsecured Shelf, Affirmed (P)A3

....Preferred Shelf, Affirmed (P)Baa2

....Senior Secured First Mortgage Bonds, Affirmed A1

....Senior Secured Regular Bond/Debenture, Affirmed A1

..Issuer: ONE Gas, Inc

....Senior Unsecured Commercial Paper, Affirmed P-1

....Senior Unsecured Regular Bond/Debenture, Affirmed A2

..Issuer: Piedmont Natural Gas Company, Inc.

....Senior Unsecured Commercial Paper, Affirmed P-1

....Senior Unsecured Regular Bond/Debenture, Affirmed A2

..Issuer: Public Service Company of Oklahoma

.... Issuer Rating, Affirmed A3

....Senior Unsecured Regular Bond/Debenture, Affirmed A3

..Issuer: Questar Gas Company

....Senior Unsecured Commercial Paper, Affirmed P-1

....Senior Unsecured Medium-Term Note Program, Affirmed (P)A2

....Senior Unsecured Regular Bond/Debenture, Affirmed A2

..Issuer: Alabama Power Capital Trust V

....Pref. Stock Preferred Stock, Affirmed A2

..Issuer: Alabama Power Company

.... Commercial Paper, Affirmed P-1

.... Issuer Rating, Affirmed A1

....Senior Unsecured Shelf, Affirmed (P)A1

....Preferred Shelf, Affirmed (P)A3

....Preference Shelf, Affirmed (P)A3

....Pref. Stock Preferred Stock, Affirmed A3

....Senior Unsecured Bank Credit Facility, Affirmed A1

....Senior Unsecured Commercial Paper, Affirmed P-1

....Senior Unsecured Regular Bond/Debenture, Affirmed A1

..Issuer: Columbia (Town of) AL, Industrial Dev. Board

....Senior Unsecured Revenue Bonds, Affirmed A1

....Senior Unsecured Revenue Bonds, Affirmed VMIG 1

..Issuer: Eutaw (City of) AL, Industrial Dev. Board

....Senior Unsecured Revenue Bonds, Affirmed A1

....Senior Unsecured Revenue Bonds, Affirmed VMIG 1

..Issuer: Mobile (City of) AL, I.D.B.

....Senior Unsecured Revenue Bonds, Affirmed A1

....Senior Unsecured Revenue Bonds, Affirmed VMIG 1

..Issuer: Walker County Econ & Ind Dev Authority

....Senior Unsecured Revenue Bonds, Affirmed A1

....Senior Unsecured Revenue Bonds, Affirmed VMIG 1

..Issuer: West Jefferson (Town of) AL, Ind. Devel. Bd.

....Senior Unsecured Revenue Bonds, Affirmed A1

....Senior Unsecured Revenue Bonds, Affirmed VMIG 1

..Issuer: Wilsonville (Town of) AL, I.D.B.

....Senior Unsecured Revenue Bonds, Affirmed A1

....Senior Unsecured Revenue Bonds, Affirmed VMIG 1

....Underlying Senior Unsecured Revenue Bonds, Affirmed A1

..Issuer: South Jersey Gas Company

.... Issuer Rating, Affirmed A2

....Senior Secured First Mortgage Bonds, Affirmed Aa3

....Senior Secured Medium-Term Note Program, Affirmed (P)Aa3

....Senior Secured Regular Bond/Debenture, Affirmed Aa3

....Senior Unsecured Commercial Paper, Affirmed P-1

..Issuer: New Jersey Economic Development Authority

....Senior Secured Revenue Bonds, Affirmed Aa3

....Underlying Senior Secured Revenue Bonds, Affirmed Aa3

....Senior Secured Revenue Bonds, Affirmed Aa2

....Underlying Senior Secured Revenue Bonds, Affirmed Aa2

..Issuer: Southern Company (The)

.... Commercial Paper, Affirmed P-2

....Junior Subordinated Regular Bond/Debenture, Affirmed Baa3

....Senior Unsecured Shelf, Affirmed (P)Baa2

....Junior Subordinated Shelf, Affirmed (P)Baa3

....Senior Unsecured Bank Credit Facility, Affirmed Baa2

....Senior Unsecured Regular Bond/Debenture, Affirmed Baa2

..Issuer: Southern Elect Generating Co

.... Issuer Rating, Affirmed A2

....Senior Unsecured Regular Bond/Debenture, Affirmed A1

..Issuer: Southwestern Public Service Company

.... Issuer Rating, Affirmed Baa1

....Senior Secured Shelf, Affirmed (P)A2

....Senior Unsecured Shelf, Affirmed (P)Baa1

....Senior Secured First Mortgage Bonds, Affirmed A2

....Senior Unsecured Bank Credit Facility, Affirmed Baa1

....Senior Unsecured Commercial Paper, Affirmed P-2

....Senior Unsecured Regular Bond/Debenture, Affirmed Baa1

..Issuer: Wisconsin Gas LLC

.... Commercial Paper, Affirmed P-1

....Senior Unsecured Regular Bond/Debenture, Affirmed A2

..Issuer: American Water Capital Corp.

.... Issuer Rating, Affirmed A3

....Senior Unsecured Shelf, Affirmed (P)A3

....Senior Unsecured Commercial Paper, Affirmed P-2

....Senior Unsecured Regular Bond/Debenture, Affirmed A3

..Issuer: American Water Works Company, Inc.

.... Issuer Rating, Affirmed A3

..Issuer: Berks County Industrial Development Auth., PA

....Senior Unsecured Revenue Bonds, Affirmed A3

..Issuer: California Pollution Control Financing Auth.

....Senior Unsecured Revenue Bonds, Affirmed A3

..Issuer: Illinois Development Finance Authority

....Senior Unsecured Revenue Bonds, Affirmed A3

..Issuer: Illinois Finance Authority

....Senior Unsecured Revenue Bonds, Affirmed A3

..Issuer: Indiana Finance Authority

....Senior Unsecured Revenue Bonds, Affirmed A3

..Issuer: MARICOPA COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY,

....Senior Unsecured Revenue Bonds, Affirmed A3

..Issuer: Northampton County I.D.A., PA

....Senior Unsecured Revenue Bonds, Affirmed A3

..Issuer: Owen (County of) KY

....Senior Unsecured Revenue Bonds, Affirmed A3

.Issuer: Consolidated Edison Company of New York, Inc.

.... Issuer Rating, Affirmed A2

....Senior Unsecured Shelf, Affirmed (P)A2

....Subordinate Shelf, Affirmed (P)A3

....Preferred Shelf, Affirmed (P)Baa1

....Senior Unsecured Commercial Paper, Affirmed P-1

....Senior Unsecured Regular Bond/Debenture, Affirmed A2

....Underlying Senior Unsecured Regular Bond/Debenture, Affirmed A2

..Issuer: New York State Energy Research & Dev. Auth.

....Senior Unsecured Revenue Bonds, Affirmed A2

....Underlying Senior Unsecured Revenue Bonds, Affirmed A2

..Issuer: New York State Research & Development Auth.

....Senior Unsecured Revenue Bonds, Affirmed A2

....Underlying Senior Unsecured Revenue Bonds, Affirmed A2

..Issuer: Consolidated Edison, Inc.

.... Issuer Rating, Affirmed A3

....Senior Unsecured Shelf, Affirmed (P)A3

....Senior Unsecured Commercial Paper, Affirmed P-2

....Senior Unsecured Regular Bond/Debenture, Affirmed A3

..Issuer: Orange and Rockland Utilities, Inc.

.... Issuer Rating, Affirmed A3

....Senior Unsecured Commercial Paper, Affirmed P-2

....Senior Unsecured Regular Bond/Debenture, Affirmed A3

..Issuer: Brooklyn Union Gas Company, The

....LT Issuer Rating, Affirmed A2

....Senior Unsecured Regular Bond/Debenture, Affirmed A2

..Issuer: New York State Energy Research & Dev. Auth.

....Backed LT IRB/PC Insured, Affirmed A2

...Underlying LT IRB/PC, Affirmed A2

Issuer: KeySpan Gas East Corporation

....LT Issuer Rating, Affirmed A2

....Senior Unsecured Regular Bond/Debenture, Affirmed A2

The principal methodology used in rating Public Service Company of Oklahoma, Southwestern Public Service Company, Southern Company (The), Alabama Power Company, Alabama Power Capital Trust V, Southern Elect Generating Co, South Jersey Gas Company, Wisconsin Gas LLC, American Electric Power Company, Inc., Duke Energy Corporation, Piedmont Natural Gas Company, Inc., Avista Corp., Avista Corp. Capital II, ONE Gas, Inc, New Jersey Natural Gas Company, Northwest Natural Gas Company, Questar Gas Company, Entergy Corporation, Consolidated Edison, Inc., Consolidated Edison Company of New York, Inc., Brooklyn Union Gas Company, The, KeySpan Gas East Corporation, and Orange and Rockland Utilities, Inc. was Regulated Electric and Gas Utilities published in June 2017. The principal methodology used in rating American Water Works Company, Inc. and American Water Capital Corp. was Regulated Water Utilities published in December 2015. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

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