

XCEL ENERGY INC  
Form 10-Q  
May 02, 2014

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q  
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the quarterly period ended March 31, 2014

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

Commission File Number: 001-3034

Xcel Energy Inc.

(Exact name of registrant as specified in its charter)

Minnesota

41-0448030

(State or other jurisdiction of incorporation or  
organization)

(I.R.S. Employer Identification No.)

414 Nicollet Mall

Minneapolis, Minnesota

55401

(Address of principal executive offices)

(Zip Code)

(612) 330-5500

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 and Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class

Outstanding at April 28, 2014

Common Stock, \$2.50 par value

501,969,728 shares



## TABLE OF CONTENTS

|           |  |           |
|-----------|--|-----------|
| PART I    | FINANCIAL INFORMATION  |           |
| Item 1 —  | <u>Financial Statements (unaudited)</u>  | <u>3</u>  |
|           | <u>CONSOLIDATED STATEMENTS OF INCOME</u>   | <u>3</u>  |
|           | <u>CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME</u>                                       | <u>4</u>  |
|           | <u>CONSOLIDATED STATEMENTS OF CASH FLOWS</u>   | <u>5</u>  |
|           | <u>CONSOLIDATED BALANCE SHEETS</u>   | <u>6</u>  |
|           | <u>CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY</u>                                | <u>7</u>  |
|           | <u>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS</u>  | <u>8</u>  |
| Item 2 —  | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>36</u> |
| Item 3 —  | <u>Quantitative and Qualitative Disclosures about Market Risk</u>                            | <u>54</u> |
| Item 4 —  | <u>Controls and Procedures</u>   | <u>54</u> |
| PART II   | OTHER INFORMATION  |           |
| Item 1 —  | <u>Legal Proceedings</u>   | <u>55</u> |
| Item 1A — | <u>Risk Factors</u>  | <u>55</u> |
| Item 2 —  | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>                           | <u>55</u> |
| Item 4 —  | <u>Mine Safety Disclosures</u>   | <u>55</u> |
| Item 5 —  | <u>Other Information</u>   | <u>55</u> |
| Item 6 —  | <u>Exhibits</u>  | <u>56</u> |
|           | <u>SIGNATURES</u>  | <u>57</u> |
|           | Certifications Pursuant to Section 302   | 1         |
|           | Certifications Pursuant to Section 906   | 1         |
|           | Statement Pursuant to Private Litigation   | 1         |

This Form 10-Q is filed by Xcel Energy Inc. Xcel Energy Inc. wholly owns the following subsidiaries: Northern States Power Company, a Minnesota corporation (NSP-Minnesota); Northern States Power Company, a Wisconsin corporation (NSP-Wisconsin); Public Service Company of Colorado (PSCo); and Southwestern Public Service Company (SPS). Xcel Energy Inc. and its consolidated subsidiaries are also referred to herein as Xcel Energy. NSP-Minnesota, NSP-Wisconsin, PSCo and SPS are also referred to collectively as utility subsidiaries. Additional information on the wholly owned subsidiaries is available on various filings with the Securities and Exchange Commission (SEC).

Table of Contents

## PART I — FINANCIAL INFORMATION

## Item 1 — FINANCIAL STATEMENTS

XCEL ENERGY INC. AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)  
 (amounts in thousands, except per share data)

|  | Three Months Ended |             |
|--|--------------------|-------------|
|  | March 31           |             |
|  | 2014               | 2013        |
| Operating revenues   |                    |             |
| Electric   | \$2,301,710        | \$2,092,196 |
| Natural gas  | 879,688            | 669,596     |
| Other  | 21,206             | 21,057      |
| Total operating revenues   | 3,202,604          | 2,782,849   |
| Operating expenses   |                    |             |
| Electric fuel and purchased power  | 1,067,321          | 925,043     |
| Cost of natural gas sold and transported   | 623,828            | 439,375     |
| Cost of sales — other  | 9,129              | 8,411       |
| Operating and maintenance expenses   | 560,143            | 529,231     |
| Conservation and demand side management program expenses                               | 77,546             | 64,032      |
| Depreciation and amortization  | 245,943            | 248,706     |
| Taxes (other than income taxes)  | 124,702            | 113,427     |
| Total operating expenses   | 2,708,612          | 2,328,225   |
| Operating income   | 493,992            | 454,624     |
| Other income, net  | 3,201              | 3,922       |
| Equity earnings of unconsolidated subsidiaries   | 7,438              | 7,577       |
| Allowance for funds used during construction — equity                                  | 21,907             | 19,754      |
| Interest charges and financing costs   |                    |             |
| Interest charges — includes other financing costs of \$5,792 and \$5,809, respectively | 139,094            | 139,631     |
| Allowance for funds used during construction — debt                                    | (9,548 )           | (8,758 )    |
| Total interest charges and financing costs   | 129,546            | 130,873     |
| Income before income taxes   | 396,992            | 355,004     |
| Income taxes   | 135,771            | 118,434     |
| Net income   | \$261,221          | \$236,570   |
| Weighted average common shares outstanding:  |                    |             |
| Basic  | 499,523            | 489,781     |
| Diluted  | 499,746            | 490,531     |
| Earnings per average common share:   |                    |             |
| Basic  | \$0.52             | \$0.48      |

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|  |        |        |
|--|--------|--------|
| Diluted                                  | 0.52   | 0.48   |
| Cash dividends declared per common share | \$0.30 | \$0.27 |

See Notes to Consolidated Financial Statements

3

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Table of Contents

XCEL ENERGY INC. AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)  
 (amounts in thousands)

|  | Three Months Ended<br>March 31 |           |
|--|--------------------------------|-----------|
|  | 2014                           | 2013      |
| Net income   | \$261,221                      | \$236,570 |
| Other comprehensive income (loss)  |                                |           |
| Pension and retiree medical benefits:  |                                |           |
| Amortization of losses (gains) included in net periodic benefit cost,<br>net of tax of \$550 and \$2,503, respectively | 864                            | (639 )    |
| Derivative instruments:  |                                |           |
| Net fair value (decrease) increase, net of tax of \$(5) and \$12, respectively   | (7 )                           | 13        |
| Reclassification of losses (gains) to net income, net of tax of<br>\$358 and \$1,429, respectively                     | 560                            | (305 )    |
|  | 553                            | (292 )    |
| Marketable securities:   |                                |           |
| Net fair value increase (decrease), net of tax of<br>\$24 and \$(18), respectively                                     | 38                             | (36 )     |
| Other comprehensive income (loss)  | 1,455                          | (967 )    |
| Comprehensive income   | \$262,676                      | \$235,603 |

See Notes to Consolidated Financial Statements

Table of Contents

XCEL ENERGY INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)  
(amounts in thousands)

|   | Three Months Ended March 31 |            |
|---|-----------------------------|------------|
|   | 2014                        | 2013       |
| Operating activities  |                             |            |
| Net income  | \$261,221                   | \$236,570  |
| Adjustments to reconcile net income to cash provided by operating activities: |                             |            |
| Depreciation and amortization   | 250,343                     | 253,004    |
| Conservation and demand side management program amortization                  | 1,555                       | 1,712      |
| Nuclear fuel amortization   | 28,862                      | 27,522     |
| Deferred income taxes   | 150,464                     | 130,662    |
| Amortization of investment tax credits  | (1,443                      | ) (1,657   |
| Allowance for equity funds used during construction                           | (21,907                     | ) (19,754  |
| Equity earnings of unconsolidated subsidiaries                                | (7,438                      | ) (7,577   |
| Dividends from unconsolidated subsidiaries                                    | 8,850                       | 9,539      |
| Share-based compensation expense  | 5,370                       | 8,167      |
| Net realized and unrealized hedging and derivative transactions               | 7,384                       | 217        |
| Changes in operating assets and liabilities:                                  |                             |            |
| Accounts receivable   | (140,962                    | ) (72,205  |
| Accrued unbilled revenues   | 111,417                     | 76,602     |
| Inventories   | 140,301                     | 87,865     |
| Other current assets  | (66,320                     | ) (51,203  |
| Accounts payable  | (37,730                     | ) 5,311    |
| Net regulatory assets and liabilities   | (253                        | ) 88,572   |
| Other current liabilities   | 1,008                       | 20,318     |
| Pension and other employee benefit obligations                                | (125,780                    | ) (181,091 |
| Change in other noncurrent assets   | 48,054                      | 24,594     |
| Change in other noncurrent liabilities  | (20,347                     | ) 5,160    |
| Net cash provided by operating activities                                     | 592,649                     | 642,328    |
| Investing activities  |                             |            |
| Utility capital/construction expenditures                                     | (822,628                    | ) (752,251 |
| Proceeds from insurance recoveries  | 4,260                       | 23,500     |
| Allowance for equity funds used during construction                           | 21,907                      | 19,754     |
| Purchases of investments in external decommissioning fund                     | (229,548                    | ) (586,239 |
| Proceeds from the sale of investments in external decommissioning fund        | 227,901                     | 584,948    |
| Investment in WYCO Development LLC  | (1,161                      | ) (231     |
| Other, net  | (1,501                      | ) (2,745   |
| Net cash used in investing activities   | (800,770                    | ) (713,264 |
| Financing activities  |                             |            |
| Proceeds from (repayments of) short-term borrowings, net                      | 6,000                       | (177,000   |
| Proceeds from issuance of long-term debt                                      | 295,999                     | 494,282    |
| Repayments of long-term debt, including reacquisition premiums                | (224                        | ) (251,367 |
| Proceeds from issuance of common stock  | 63,548                      | 160,084    |
| Dividends paid  | (132,033                    | ) (124,426 |
| Net cash provided by financing activities                                     | 233,290                     | 101,573    |

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|   |             |               |
|---|-------------|---------------|
| Net change in cash and cash equivalents                                   | 25,169      | 30,637        |
| Cash and cash equivalents at beginning of period                          | 107,144     | 82,323        |
| Cash and cash equivalents at end of period                                | \$132,313   | \$112,960     |
| Supplemental disclosure of cash flow information:                         |             |               |
| Cash paid for interest (net of amounts capitalized)                       | \$(152,522) | ) \$(153,498) |
| Cash (paid) received for income taxes, net                                | (164)       | ) 17,939      |
| Supplemental disclosure of non-cash investing and financing transactions: |             |               |
| Property, plant and equipment additions in accounts payable               | \$290,058   | \$256,530     |
| Issuance of common stock for reinvested dividends and 401(k) plans        | 14,525      | 18,791        |

See Notes to Consolidated Financial Statements



Table of Contents

XCEL ENERGY INC. AND SUBSIDIARIES  
 CONSOLIDATED BALANCE SHEETS (UNAUDITED)  
 (amounts in thousands, except share and per share data)

|  | March 31,<br>2014 | Dec. 31, 2013 |
|--|-------------------|---------------|
| Assets   |                   |               |
| Current assets                                     |                   |               |
| Cash and cash equivalents                          | \$132,313         | \$107,144     |
| Accounts receivable, net                           | 885,098           | 744,160       |
| Accrued unbilled revenues                          | 575,813           | 687,230       |
| Inventories  | 436,237           | 576,538       |
| Regulatory assets                                  | 481,473           | 417,801       |
| Derivative instruments                             | 70,275            | 91,707        |
| Deferred income taxes                              | 252,658           | 341,202       |
| Prepayments and other                              | 295,479           | 252,258       |
| Total current assets                               | 3,129,346         | 3,218,040     |
| Property, plant and equipment, net                 | 26,541,482        | 26,122,159    |
| Other assets                                       |                   |               |
| Nuclear decommissioning fund and other investments | 1,793,067         | 1,755,990     |
| Regulatory assets                                  | 2,497,280         | 2,509,218     |
| Derivative instruments                             | 67,513            | 84,842        |
| Other  | 170,064           | 217,241       |
| Total other assets                                 | 4,527,924         | 4,567,291     |
| Total assets                                       | \$34,198,752      | \$33,907,490  |
| Liabilities and Equity                             |                   |               |
| Current liabilities                                |                   |               |
| Current portion of long-term debt                  | \$282,133         | \$280,763     |
| Short-term debt                                    | 765,000           | 759,000       |
| Accounts payable                                   | 1,061,874         | 1,261,238     |
| Regulatory liabilities                             | 258,946           | 274,769       |
| Taxes accrued                                      | 461,520           | 378,766       |
| Accrued interest                                   | 132,589           | 159,372       |
| Dividends payable                                  | 150,250           | 139,432       |
| Derivative instruments                             | 22,358            | 23,382        |
| Other  | 333,078           | 377,776       |
| Total current liabilities                          | 3,467,748         | 3,654,498     |
| Deferred credits and other liabilities             |                   |               |
| Deferred income taxes                              | 5,412,381         | 5,331,046     |
| Deferred investment tax credits                    | 77,796            | 79,239        |
| Regulatory liabilities                             | 1,090,733         | 1,059,395     |
| Asset retirement obligations                       | 1,838,521         | 1,815,390     |
| Derivative instruments                             | 199,578           | 209,224       |
| Customer advances                                  | 272,583           | 275,555       |
| Pension and employee benefit obligations           | 642,126           | 769,222       |

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|  |              |              |
|--|--------------|--------------|
| Other  | 244,543      | 237,217      |
| Total deferred credits and other liabilities   | 9,778,261    | 9,776,288    |
| Commitments and contingencies  |              |              |
| Capitalization   |              |              |
| Long-term debt   | 11,205,319   | 10,910,754   |
| Common stock — 1,000,000,000 shares authorized of \$2.50 par value; 501,151,619 and 497,971,508 shares outstanding at March 31, 2014 and Dec. 31, 2013, respectively | 1,252,879    | 1,244,929    |
| Additional paid in capital   | 5,681,150    | 5,619,313    |
| Retained earnings  | 2,918,215    | 2,807,983    |
| Accumulated other comprehensive loss   | (104,820     | ) (106,275 ) |
| Total common stockholders' equity  | 9,747,424    | 9,565,950    |
| Total liabilities and equity   | \$34,198,752 | \$33,907,490 |

See Notes to Consolidated Financial Statements

Table of Contents

XCEL ENERGY INC. AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY (UNAUDITED)  
 (amounts in thousands)

|  | Common Stock Issued |             |                            | Retained Earnings | Accumulated Other Comprehensive Loss | Total Common Stockholders' Equity |
|--|---------------------|-------------|----------------------------|-------------------|--------------------------------------|-----------------------------------|
|  | Shares              | Par Value   | Additional Paid In Capital |                   |                                      |                                   |
| Three Months Ended March 31, 2014 and 2013 |                     |             |                            |                   |                                      |                                   |
| Balance at Dec. 31, 2012                   | 487,960             | \$1,219,899 | \$5,353,015                | \$2,413,816       | \$ (112,653 )                        | \$8,874,077                       |
| Net income                                 |                     |             |                            | 236,570           |                                      | 236,570                           |
| Other comprehensive loss                   |                     |             |                            |                   | (967 )                               | (967 )                            |
| Dividends declared on common stock         |                     |             |                            | (134,054 )        |                                      | (134,054 )                        |
| Issuances of common stock                  | 6,795               | 16,989      | 151,845                    |                   |                                      | 168,834                           |
| Share-based compensation                   |                     |             | 10,653                     |                   |                                      | 10,653                            |
| Balance at March 31, 2013                  | 494,755             | \$1,236,888 | \$5,515,513                | \$2,516,332       | \$ (113,620 )                        | \$9,155,113                       |
| Balance at Dec. 31, 2013                   | 497,972             | \$1,244,929 | \$5,619,313                | \$2,807,983       | \$ (106,275 )                        | \$9,565,950                       |
| Net income                                 |                     |             |                            | 261,221           |                                      | 261,221                           |
| Other comprehensive income                 |                     |             |                            |                   | 1,455                                | 1,455                             |
| Dividends declared on common stock         |                     |             |                            | (150,989 )        |                                      | (150,989 )                        |
| Issuances of common stock                  | 3,180               | 7,950       | 55,772                     |                   |                                      | 63,722                            |
| Share-based compensation                   |                     |             | 6,065                      |                   |                                      | 6,065                             |
| Balance at March 31, 2014                  | 501,152             | \$1,252,879 | \$5,681,150                | \$2,918,215       | \$ (104,820 )                        | \$9,747,424                       |

See Notes to Consolidated Financial Statements

Table of Contents

## XCEL ENERGY INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (UNAUDITED)

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly, in accordance with accounting principles generally accepted in the United States of America (GAAP), the financial position of Xcel Energy Inc. and its subsidiaries as of March 31, 2014 and Dec. 31, 2013; the results of its operations, including the components of net income and comprehensive income, and changes in stockholders' equity for the three months ended March 31, 2014 and 2013; and its cash flows for the three months ended March 31, 2014 and 2013. All adjustments are of a normal, recurring nature, except as otherwise disclosed. Management has also evaluated the impact of events occurring after March 31, 2014 up to the date of issuance of these consolidated financial statements. These statements contain all necessary adjustments and disclosures resulting from that evaluation. The Dec. 31, 2013 balance sheet information has been derived from the audited 2013 consolidated financial statements included in the Xcel Energy Inc. Annual Report on Form 10-K for the year ended Dec. 31, 2013. These notes to the consolidated financial statements have been prepared pursuant to the rules and regulations of the SEC for Quarterly Reports on Form 10-Q. Certain information and note disclosures normally included in financial statements prepared in accordance with GAAP on an annual basis have been condensed or omitted pursuant to such rules and regulations. For further information, refer to the consolidated financial statements and notes thereto, included in the Xcel Energy Inc. Annual Report on Form 10-K for the year ended Dec. 31, 2013, filed with the SEC on Feb. 21, 2014. Due to the seasonality of Xcel Energy's electric and natural gas sales, interim results are not necessarily an appropriate base from which to project annual results.

## 1. Summary of Significant Accounting Policies

The significant accounting policies set forth in Note 1 to the consolidated financial statements in the Xcel Energy Inc. Annual Report on Form 10-K for the year ended Dec. 31, 2013, appropriately represent, in all material respects, the current status of accounting policies and are incorporated herein by reference.

## 2. Accounting Pronouncements

Recently issued accounting pronouncements that have been adopted in the current period did not materially impact the consolidated financial statements, and no material impact is expected from accounting pronouncements issued and pending implementation.

## 3. Selected Balance Sheet Data

| (Thousands of Dollars)       | March 31, 2014 | Dec. 31, 2013 |
|------------------------------|----------------|---------------|
| Accounts receivable, net     |                |               |
| Accounts receivable          | \$939,228      | \$797,267     |
| Less allowance for bad debts | (54,130)       | (53,107)      |
|                              | \$885,098      | \$744,160     |
| (Thousands of Dollars)       | March 31, 2014 | Dec. 31, 2013 |
| Inventories                  |                |               |
| Materials and supplies       | \$229,299      | \$225,308     |
| Fuel                         | 149,190        | 189,485       |
| Natural gas                  | 57,748         | 161,745       |
|                              | \$436,237      | \$576,538     |

Table of Contents

| (Thousands of Dollars)              | March 31, 2014 | Dec. 31, 2013 |
|-------------------------------------|----------------|---------------|
| Property, plant and equipment, net  |                |               |
| Electric plant                      | \$30,562,428   | \$30,341,310  |
| Natural gas plant                   | 4,156,606      | 4,086,651     |
| Common and other property           | 1,477,531      | 1,485,547     |
| Plant to be retired <sup>(a)</sup>  | 92,050         | 101,279       |
| Construction work in progress       | 2,672,049      | 2,371,566     |
| Total property, plant and equipment | 38,960,664     | 38,386,353    |
| Less accumulated depreciation       | (12,741,176)   | (12,608,305)  |
| Nuclear fuel                        | 2,193,544      | 2,186,799     |
| Less accumulated amortization       | (1,871,550)    | (1,842,688)   |
|                                     | \$26,541,482   | \$26,122,159  |

As a result of the 2010 Colorado Public Utilities Commission (CPUC) approval of PSCo's Clean Air Clean Jobs Act (CACJA) compliance plan and the December 2013 approval of PSCo's preferred plans for applicable generating resources, PSCo has received approval for early retirement of Cherokee Unit 3 and Valmont Unit 5 between 2015 and 2017. Amounts are presented net of accumulated depreciation.

## 4. Income Taxes

Except to the extent noted below, the circumstances set forth in Note 6 to the consolidated financial statements included in Xcel Energy Inc.'s Annual Report on Form 10-K for the year ended Dec. 31, 2013 appropriately represent, in all material respects, the current status of other income tax matters, and are incorporated herein by reference.

**Federal Tax Loss Carryback Claims** — In 2012 and 2013, Xcel Energy identified certain expenses related to 2009, 2010, 2011 and 2013 that qualify for an extended carryback beyond the typical two-year carryback period. As a result of a higher tax rate in prior years, Xcel Energy recognized a tax benefit of approximately \$15 million in 2012 and \$12 million in 2013.

**Federal Audit** — Xcel Energy files a consolidated federal income tax return. The statute of limitations applicable to Xcel Energy's 2008 federal income tax return expired in September 2012. The statute of limitations applicable to Xcel Energy's 2009 federal income tax return expires in June 2015. In the third quarter of 2012, the Internal Revenue Service (IRS) commenced an examination of tax years 2010 and 2011, including the 2009 carryback claim. As of March 31, 2014, the IRS had proposed an adjustment to the federal tax loss carryback claims that would result in \$10 million of income tax expense for the 2009 through 2011 claims and the anticipated claim for 2013. Xcel Energy is continuing to work through the audit process, but the outcome and timing of a resolution is uncertain.

**State Audits** — Xcel Energy files consolidated state tax returns based on income in its major operating jurisdictions of Colorado, Minnesota, Texas, and Wisconsin, and various other state income-based tax returns. As of March 31, 2014, Xcel Energy's earliest open tax years that are subject to examination by state taxing authorities in its major operating jurisdictions were as follows:

| State     | Year |
|-----------|------|
| Colorado  | 2009 |
| Minnesota | 2009 |
| Texas     | 2009 |
| Wisconsin | 2009 |

In the first quarter of 2014, the state of Wisconsin completed an examination of tax years 2009 through 2011. No material adjustments were proposed for those tax years. As of March 31, 2014, there were no state income tax audits

in progress.

Unrecognized Tax Benefits — The unrecognized tax benefit balance includes permanent tax positions, which if recognized would affect the annual effective tax rate (ETR). In addition, the unrecognized tax benefit balance includes temporary tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. A change in the period of deductibility would not affect the ETR but would accelerate the payment of cash to the taxing authority to an earlier period.

Table of Contents

A reconciliation of the amount of unrecognized tax benefit is as follows:

| (Millions of Dollars)                              | March 31, 2014 | Dec. 31, 2013 |
|--|----------------|---------------|
| Unrecognized tax benefit — Permanent tax positions | \$7.4          | \$12.9        |
| Unrecognized tax benefit — Temporary tax positions | 27.8           | 28.3          |
| Total unrecognized tax benefit                     | \$35.2         | \$41.2        |

The unrecognized tax benefit amounts were reduced by the tax benefits associated with net operating loss (NOL) and tax credit carryforwards. The amounts of tax benefits associated with NOL and tax credit carryforwards are as follows:

| (Millions of Dollars)            | March 31, 2014 | Dec. 31, 2013 |
|----------------------------------|----------------|---------------|
| NOL and tax credit carryforwards | \$(23.0)       | \$(27.1)      |

It is reasonably possible that Xcel Energy's amount of unrecognized tax benefits could significantly change in the next 12 months as the IRS audit progresses and state audits resume. As the IRS examination moves closer to completion, it is reasonably possible that the amount of unrecognized tax benefit could decrease up to approximately \$8 million.

The payable for interest related to unrecognized tax benefits is partially offset by the interest benefit associated with NOL and tax credit carryforwards. The payables for interest related to unrecognized tax benefits at March 31, 2014 and Dec. 31, 2013 were not material. No amounts were accrued for penalties related to unrecognized tax benefits as of March 31, 2014 or Dec. 31, 2013.

## 5. Rate Matters

Except to the extent noted below, the circumstances set forth in Note 12 to the consolidated financial statements included in Xcel Energy Inc.'s Annual Report on Form 10-K for the year ended Dec. 31, 2013 appropriately represent, in all material respects, the current status of other rate matters, and are incorporated herein by reference.

### NSP-Minnesota

#### Pending Regulatory Proceedings — Minnesota Public Utilities Commission (MPUC)

NSP Minnesota – Minnesota 2014 Multi-Year Electric Rate Case — In November 2013, NSP-Minnesota filed a two-year electric rate case with the MPUC. The rate case is based on a requested return on equity (ROE) of 10.25 percent, a 52.5 percent equity ratio, a 2014 average electric rate base of \$6.67 billion and an additional average rate base of \$412 million in 2015.

The NSP-Minnesota electric rate case reflects an overall increase in revenues of approximately \$193 million or 6.9 percent in 2014 and an additional \$98 million or 3.5 percent in 2015. The request includes a proposed rate moderation plan for 2014 and 2015. After reflecting interim rate adjustments, NSP-Minnesota is requesting a rate increase of \$127 million or 4.6 percent in 2014 and an incremental rate increase of \$164 million or 5.6 percent in 2015.

NSP-Minnesota's moderation plan includes the acceleration of the eight-year amortization of the excess depreciation reserve which the MPUC approved in NSP-Minnesota's last electric rate case and the use of expected funds from the U.S. Department of Energy (DOE) for settlement of certain claims. These DOE refunds would be in excess of amounts needed to fund NSP-Minnesota's decommissioning expense. The interim rate adjustments are primarily associated with ROE, Monticello life cycle management (LCM)/extended power uprate (EPU) project costs and NSP-Minnesota's request to amortize amounts associated with the canceled Prairie Island EPU project. NSP-Minnesota may file a petition for deferred accounting regarding these Monticello costs later in 2014.





Table of Contents

The rate request, moderation plan, interim rate adjustments, customer bill impacts and certain impacts on expenses are detailed in the table below:

| (Millions of Dollars)                       | 2014  | Percentage Increase | 2015  | Percentage Increase |
|---|-------|---------------------|-------|---------------------|
| Pre-moderation deficiency                   | \$274 |                     | \$81  |                     |
| Moderation change compared to prior year:   |       |                     |       |                     |
| Depreciation reserve                        | (81 ) |                     | 53    |                     |
| DOE settlement proceeds                     | —     |                     | (36 ) |                     |
| Filed rate request                          | 193   | 6.9%                | 98    | 3.5%                |
| Interim rate adjustments                    | (66 ) |                     | 66    |                     |
| Impact on customer bill                     | 127   | 4.6%                | 164   | 5.6%                |
| Potential expense deferral                  | 16    |                     | —     |                     |
| Depreciation expense - reduction/(increase) | 81    |                     | (46 ) |                     |
| Recognition of DOE settlement proceeds      | —     |                     | 36    |                     |
| Pre-tax impact on operating income          | \$224 |                     | \$154 |                     |

In December 2013, the MPUC approved interim rates of \$127 million effective Jan. 3, 2014, subject to refund. The MPUC determined that the costs of Sherco Unit 3 would be allowed in interim rates, and that NSP-Minnesota's request to accelerate the depreciation reserve amortization was a permissible adjustment to its interim rate request.

The next steps in the procedural schedule are expected to be as follows:

- Direct Testimony — June 5, 2014;
- Rebuttal Testimony — July 7, 2014;
- Surrebuttal Testimony — Aug. 4, 2014;
- Evidentiary Hearing — Aug. 11-18, 2014;
- Reply Brief — Oct. 14, 2014; and
- Administrative Law Judge (ALJ) Report — Dec. 22, 2014.

A final MPUC decision is anticipated in March 2015.

NSP-Minnesota – Nuclear Project Prudence Investigation — The MPUC has initiated an investigation to determine whether the costs in excess of the \$320 million included in the certificate of need (CON) for NSP-Minnesota's Monticello LCM/EPU project were prudent. The final costs for the Monticello LCM/EPU project were approximately \$665 million.

In October 2013, NSP-Minnesota filed a report to further support the change and prudence of the incurred costs. The filing indicated the increase in costs was primarily attributable to three factors: (1) the original estimate was based on a high level conceptual design and the project scope increased as the actual conditions of the plant were incorporated into the design; (2) implementation difficulties, including the amount of work that occurred in confined and radioactive or electrically sensitive spaces and NSP-Minnesota's and its vendors' ability to attract and retain experienced workers; and (3) additional Nuclear Regulatory Commission (NRC) licensing related requests over the five-plus year application process. NSP-Minnesota has provided information that the cost deviation is in line with similar upgrade projects undertaken by other utilities and the project remains economically beneficial to customers. NSP-Minnesota has received all necessary licenses from the NRC for the Monticello EPU, and has begun the process to comply with the license requirements for higher power levels, subject to NRC oversight and review.

At the direction of the MPUC, the Minnesota Department of Commerce (DOC) has retained a consultant to assist in their review. The consultant, Global Energy and Water Consulting, LLC is covering the cost split between LCM and

EPU; reasons for the cost increases; project management and oversight; and the prudence of scope changes among others. The results and any recommendations from the conclusion of this prudence proceeding are expected to be considered by the MPUC in NSP-Minnesota's 2014 Minnesota electric rate case. The next steps in the procedural schedule are expected to be as follows:

Direct Testimony — July 2, 2014;  
Rebuttal Testimony — Aug. 26, 2014;  
Surrebuttal Testimony — Sept. 19, 2014;  
Hearing — Sept. 29 - Oct. 3, 2014;

Table of Contents

Reply Brief — Nov. 21, 2014; and  
ALJ Report — Dec. 31, 2014.

A final MPUC decision is anticipated in the first quarter of 2015.

#### Recently Concluded Regulatory Proceedings — North Dakota Public Service Commission (NDPSC)

NSP-Minnesota – North Dakota 2013 Electric Rate Case — In December 2012, NSP-Minnesota filed a request with the NDPSC to increase annual retail electric rates approximately \$16.9 million, or 9.25 percent. The rate filing was based on a 2013 forecast test year (FTY), a requested ROE of 10.6 percent, an electric rate base of approximately \$377.6 million and an equity ratio of 52.56 percent. In January 2013, the NDPSC approved an interim electric increase of \$14.7 million, effective Feb. 16, 2013, subject to refund.

In February 2014, the NDPSC approved a four-year rate plan settlement. The approved plan will provide increased revenues of approximately \$7.4 million, \$9.4 million and \$10.1 million, an annual rate increase of 4.9 percent for 2013, 2014 and 2015 respectively, with no increase in 2016. Additionally, the rate plan includes a gradually increasing ROE of 9.75, 10.0, 10.0 and 10.25 percent for 2013 through 2016, respectively. Final rates for 2013 and the 2014 rate increase went into effect May 1, 2014. The 2015 rate increase will take effect Jan. 1, 2015.

#### PSCo

#### Pending and Recently Concluded Regulatory Proceedings — CPUC

PSCo – Colorado 2013 Gas Rate Case — In December 2012, PSCo filed a multi-year request with the CPUC to increase Colorado retail natural gas rates by \$48.5 million in 2013 with subsequent step increases of \$9.9 million in 2014 and \$12.1 million in 2015. The request was based on a 2013 FTY, a 10.5 percent ROE, a rate base of \$1.3 billion and an equity ratio of 56 percent. Interim rates, subject to refund, went into effect in August 2013.

In April 2013, PSCo revised its requested annual rate increase to \$44.8 million for 2013, with subsequent step increases of \$9.0 million for 2014 and \$10.9 million for 2015, based on an ROE of 10.3 percent. This requested increase included amounts to be transferred from the Pipeline System Integrity Adjustment (PSIA) rider mechanism.

In December 2013, the CPUC approved a natural gas base rate increase of approximately \$15.8 million based on an ROE of 9.72 percent, a historic test year (HTY) with an end of year rate base and an equity ratio of 56 percent.

The following table summarizes the CPUC decision:

| (Millions of Dollars)                        | CPUC Decision |
|--|---------------|
| PSCo deficiency based on a FTY               | \$44.8        |
| HTY adjustment                               | (5.4 )        |
| ROE and capital structure adjustments        | (8.3 )        |
| Revenue adjustments                          | (1.4 )        |
| Other  | (0.1 )        |
| Recommendation                               | 29.6          |
| PSIA — base rate transfer to rider mechanism | (13.8 )       |
| Incremental base revenue                     | \$ 15.8       |

Rates and conforming changes made to the PSIA were effective Jan. 1, 2014. In April 2014, the CPUC approved PSCo's request to refund \$6.6 million to customers, excluding amounts related to the PSIA rider mechanism. The refund represents the difference between the interim rates collected and the final approved rates and will be returned

between April 2014 and March 2015.

PSCo – Colorado 2013 Steam Rate Case — In December 2012, PSCo filed a request to increase Colorado retail steam rates by \$1.6 million in 2013 with subsequent step increases of \$0.9 million in 2014 and \$2.3 million in 2015. The request was based on a 2013 FTY, a 10.5 percent ROE, a rate base of \$21 million for steam and an equity ratio of 56 percent.

Table of Contents

In October 2013, PSCo, the CPUC Staff, the Office of Consumer Counsel (OCC) and Colorado Energy Consumers filed a comprehensive settlement which tied the outcome of the steam rate case to key issues to be decided in the natural gas rate case, including ROE and capital structure. The settlement allowed the filed rates to be effective on Jan. 1, 2014, subject to refund. Final rates allowing a rate increase of \$2.3 million annually were implemented on Feb. 1, 2014.

PSCo – Annual Electric Earnings Test — An earnings sharing mechanism is used to apply prospective electric rate adjustments for earnings in the prior year that exceed PSCo’s authorized ROE threshold of 10 percent. PSCo filed a tariff for the 2013 earnings test with the CPUC on April 30, 2014, proposing a refund obligation of