

XCEL ENERGY INC
Form 10-K
February 22, 2019

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

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018

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

001-3034 41-0448030
(Commission File Number) (I.R.S. Employer Identification No.)

(Registrant,
State of
Incorporation

or
Organization,
Address of

Principal
Executive
Officers and
Telephone
Number)

Xcel Energy
Inc.

(a Minnesota
corporation)

414 Nicollet
Mall
Minneapolis,
MN 55401
612-330-5500

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Common Stock, \$2.50 par value per share

Securities registered pursuant to section 12(g) of the Act: None

Name of each exchange on which
registered

Nasdaq Stock Market LLC

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
 Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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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 every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulations S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company Emerging growth company
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

As of June 29, 2018, the aggregate market value of the voting common stock held by non-affiliates of the Registrants was \$23,246,479,826 and there were 508,898,420 shares of common stock outstanding.

As of Feb. 14, 2019, there were 514,211,368 shares of common stock outstanding, \$2.50 par value.

DOCUMENTS INCORPORATED BY REFERENCE

The Registrant's Definitive Proxy Statement for its 2019 Annual Meeting of Shareholders is incorporated by reference into Part III of this Form 10-K.

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SIGNATURES

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PART I

Item 1 — Business

ABBREVIATIONS AND INDUSTRY TERMS

Xcel Energy Inc.'s Subsidiaries and Affiliates (current and former)

Capital Services	Capital Services, LLC
Eloigne	Eloigne Company
e prime	e prime inc.
NCE	New Century Energies, Inc.
NSP-Minnesota	Northern States Power Company, a Minnesota corporation
NSP System	The electric production and transmission system of NSP-Minnesota and NSP-Wisconsin operated on an integrated basis and managed by NSP-Minnesota
NSP-Wisconsin	Northern States Power Company, a Wisconsin corporation
Operating companies	NSP-Minnesota, NSP-Wisconsin, PSCo and SPS
PSCo	Public Service Company of Colorado
SPS	Southwestern Public Service Co.
Utility subsidiaries	NSP-Minnesota, NSP-Wisconsin, PSCo and SPS
WGI	WestGas InterState, Inc.
WYCO	WYCO Development, LLC
Xcel Energy	Xcel Energy Inc. and its subsidiaries
Federal and State Regulatory Agencies	
CPUC	Colorado Public Utilities Commission
D.C. Circuit	United States Court of Appeals for the District of Columbia Circuit
DOC	Minnesota Department of Commerce
DOE	United States Department of Energy
DOJ	Department of Justice
DOT	United States Department of Transportation
EPA	United States Environmental Protection Agency
FERC	Federal Energy Regulatory Commission
Fifth Circuit	United States Court of Appeals for the Fifth Circuit
IRS	Internal Revenue Service
Minnesota District Court	U.S. District Court for the District of Minnesota
MPSC	Michigan Public Service Commission
MPUC	Minnesota Public Utilities Commission
NDPSC	North Dakota Public Service Commission
NERC	North American Electric Reliability Corporation
Ninth Circuit	U.S. Court of Appeals for the Ninth Circuit
NMPRC	New Mexico Public Regulation Commission
NRC	Nuclear Regulatory Commission
OAG	Minnesota Office of the Attorney General
PHMSA	Pipeline and Hazardous Materials Safety Administration
PSCW	Public Service Commission of Wisconsin
PUCT	Public Utility Commission of Texas
SDPUC	South Dakota Public Utilities Commission
SEC	Securities and Exchange Commission
TCEQ	Texas Commission on Environmental Quality
Electric, Purchased Gas and Resource Adjustment	
Clauses	
CIP	Conservation improvement program

DCRF	Distribution cost recovery factor
DSM	Demand side management
DSMCA	Demand side management cost adjustment
ECA	Retail electric commodity adjustment
EE	Energy efficiency
EECRF	Energy efficiency cost recovery factor
EIR	Environmental improvement rider
FCA	Fuel clause adjustment
FPPCAC	Fuel and purchased power cost adjustment clause
GCA	Gas cost adjustment
GUIC	Gas utility infrastructure cost rider
PCCA	Purchased capacity cost adjustment
PCRF	Power cost recovery factor
PGA	Purchased gas adjustment
PSIA	Pipeline system integrity adjustment
RDF	Renewable development fund
RER	Renewable energy rider
RES	Renewable energy standard
RESA	Renewable energy standard adjustment
SCA	Steam cost adjustment
SEP	State energy policy rider
TCA	Transmission cost adjustment
TCR	Transmission cost recovery adjustment
TCRF	Transmission cost recovery factor
WCA	Windsor [®] cost adjustment
Other	
AFUDC	Allowance for funds used during construction
ALJ	Administrative law judge
APBO	Accumulated postretirement benefit obligation
ARAM	Average rate assumption method
ARO	Asset retirement obligation
ASC	FASB Accounting Standards Codification
ASU	FASB Accounting Standards Update
ATM	At-the-market
ATRR	Annual transmission revenue requirement
BART	Best available retrofit technology
Boulder	City of Boulder, CO
C&I	Commercial and Industrial
CAPM	Capital Asset Pricing Model
CACJA	Clean Air Clean Jobs Act
CAISO	California Independent System Operator
CapX2020	Alliance of electric cooperatives, municipals and investor-owned utilities in the upper Midwest involved in a joint transmission line planning and construction effort
CBA	Collective-bargaining agreement
CCR	Coal combustion residuals
CCR Rule	Final rule (40 CFR 257.50 - 257.107) published by the EPA regulating the management, storage and disposal of CCRs as a nonhazardous waste
CDD	Cooling degree-days
CEP	Colorado Energy Plan
CIG	Colorado Interstate Gas Company, LLC

CO ₂	Carbon dioxide
Corps	U.S. Army Corps of Engineers
CPCN	Certificate of public convenience and necessity
CPP	Clean Power Plan
CWA	Clean Water Act

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CWIP	Construction work in progress
DCF	Discounted Cash Flows
DECON	Decommissioning method where radioactive contamination is removed and safely disposed at a requisite facility, or decontaminated to a permitted level.
DRC	Development Recovery Company
DRIP	Dividend Reinvestment Program
EEI	Edison Electric Institute
ELG	Effluent limitations guidelines
EMANI	European Mutual Association for Nuclear Insurance
EPS	Earnings per share
EPU	Extended power uprate
ERP	Electric resource plan
ETR	Effective tax rate
FASB	Financial Accounting Standards Board
FTR	Financial transmission right
GAAP	Generally accepted accounting principles
GE	General Electric
GHG	Greenhouse gas
HDD	Heating degree-days
HTY	Historic test year
IM	Integrated market
IPP	Independent power producing entity
IRC	Internal Revenue Code
IRP	Integrated Resource Plan
ISFSI	Independent Spent Fuel Storage Installation
ITC	Investment Tax Credit
JOA	Joint operating agreement
LCM	Life cycle management
LLW	Low-level radioactive waste
LSP Transmission	LSP Transmission Holdings, LLC
Mankato 1	Mankato Energy Center, LLC
Mankato 2	Mankato Energy Center II, LLC
MDL	Multi-district litigation
MGP	Manufactured gas plant
MISO	Midcontinent Independent System Operator, Inc.
Moody's	Moody's Investor Services
NAAQS	National Ambient Air Quality Standard
Native load	Demand of retail and wholesale customers that a utility has an obligation to serve under statute or contract
NAV	Net asset value
NEIL	Nuclear Electric Insurance Ltd.
NETO	New England Transmission Owners
NOL	Net operating loss
NOX	Nitrogen oxide
O&M	Operating and maintenance
OATT	Open Access Transmission Tariff
OCC	Office of Consumer Counsel
Opinion 531	Methodology for calculating base ROE adopted by the FERC in June 2014

Paris Agreement	Establishes a framework for GHG mitigation actions by all countries (“nationally determined contributions”)
PI	Prairie Island nuclear generating plant
PJM	PJM Interconnection, LLC
PM	Particulate matter
Post-65	Post-Medicare
PPA	Purchased power agreement
Pre-65	Pre-Medicare
PRP	Potentially responsible party
PTC	Production tax credit
QF	Qualifying facilities
R&E	Research and experimentation
REC	Renewable energy credit
RFP	Request for proposal
ROE	Return on equity
ROFR	Right-of-first-refusal
RPS	Renewable portfolio standards
RTO	Regional Transmission Organization
Standard & Poor’s	Standard & Poor’s Ratings Services
SAB	Staff Accounting Bulletin
SAB 118	Income Tax Accounting Implications of the Tax Cuts and Jobs Act
SERP	Supplemental executive retirement plan
SMMPA	Southern Minnesota Municipal Power Agency
SO ₂	Sulfur dioxide
SPP	Southwest Power Pool, Inc.
SSL	Statistically significant increase over established groundwater standards
TCEH	Texas Competitive Energy Holdings
TCJA	2017 federal tax reform enacted as Public Law No: 115-97, commonly referred to as the Tax Cuts and Jobs Act
THI	Temperature-humidity index
TOs	Transmission owners
TransCo	Transmission-only subsidiary
TSR	Total shareholder return
VaR	Value at Risk
VIE	Variable interest entity
WOTUS	Waters of the U.S.
Measurements	
Bcf	Billion cubic feet
KV	Kilovolts
KWh	Kilowatt hours
MMBtu	Million British thermal units
MW	Megawatts
MWh	Megawatt hours

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Forward-Looking Statements

Except for the historical statements contained in this report, the matters discussed herein are forward-looking statements that are subject to certain risks, uncertainties and assumptions. Such forward-looking statements, including the 2019 EPS guidance, long-term EPS and dividend growth rate, as well as assumptions and other statements are intended to be identified in this document by the words “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “objective,” “outlook,” “plan,” “project,” “possible,” “potential,” “should,” “will,” “would” and similar expressions. Actual results may vary materially. Forward-looking statements speak only as of the date they are made, and we expressly disclaim any obligation to update any forward-looking information. The following factors, in addition to those discussed elsewhere in this Annual Report on Form 10-K for the fiscal year ended Dec. 31, 2018 (including the items described under Factors Affecting Results of Operations; and the other risk factors listed from time to time by Xcel Energy Inc. in reports filed with the SEC, including “Risk Factors” in Item 1A of this Annual Report on Form 10-K hereto), could cause actual results to differ materially from management expectations as suggested by such forward-looking information: changes in environmental laws and regulations; climate change and other weather, natural disaster and resource depletion, including compliance with any accompanying legislative and regulatory changes; ability of subsidiaries to recover costs from customers; reductions in our credit ratings and the cost of maintaining certain contractual relationships; general economic conditions, including inflation rates, monetary fluctuations and their impact on capital expenditures and the ability of Xcel Energy Inc. and its subsidiaries to obtain financing on favorable terms; availability or cost of capital; our customers’ and counterparties’ ability to pay their debts to us; assumptions and costs relating to funding our employee benefit plans and health care benefits; our subsidiaries’ ability to make dividend payments; tax laws; operational safety, including our nuclear generation facilities; successful long-term operational planning; commodity risks associated with energy markets and production; rising energy prices; costs of potential regulatory penalties; effects of geopolitical events, including war and acts of terrorism; cyber security threats and data security breaches; fuel costs; and employee work force and third party contractor factors.

Where To Find More Information

Xcel Energy’s website address is www.xcelenergy.com. Xcel Energy makes available, free of charge through its website, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after the reports are electronically filed with or furnished to the SEC. The SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically at <http://www.sec.gov>.

COMPANY OVERVIEW

Xcel Energy Inc. and its subsidiaries (“Xcel Energy” or the “Company”) is a major U.S. regulated electric and natural gas delivery company which serves customers in eight mid-western and western states, including portions of Colorado, Michigan, Minnesota, New Mexico, North Dakota, South Dakota, Texas and Wisconsin. The Company provides a comprehensive portfolio of energy-related products and services to approximately 3.6 million electric customers and 2.0 million natural gas customers through four operating companies (e.g., NSP-Minnesota, NSP-Wisconsin, PSCO and SPS).

Xcel Energy’s vision is to be the preferred and trusted provider of the energy our customers need and we strive to provide our investors an attractive total return value proposition and customers with safe, clean and reliable energy services at a competitive price. This mission is enabled via three key strategic priorities:

- Lead the clean energy transition;
- Enhance the customer experience; and,
- Keep the bills low.

Xcel Energy is an environmental leader and in 2018 was the first major utility in the nation to announce a vision to serve all customers with 100% zero-carbon emissions by 2050. The Company is also implementing the nation’s largest multi-state wind plan with 12 new, low-cost wind farms across seven states. By leading the clean energy transition, we have positioned ourselves to create economic development for the communities and customers we serve.

See Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations — Management’s Strategic Priorities for further discussion.

* Holding company incorporated under the laws of Minnesota in 1909 and its executive offices are located at 414 Nicollet Mall, Minneapolis, MN 55401.

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NSP-Minnesota

NSP-Minnesota conducts business in Minnesota, North Dakota and South Dakota and has electric operations in all three states including the generation, purchase, transmission, distribution and sale of electricity as managed on the NSP System. NSP-Minnesota also purchases, transports, distributes and sells natural gas to retail customers and transports customer-owned natural gas in Minnesota and North Dakota.

NSP-Minnesota

Electric customers	1.5 million
Natural gas customers	0.5 million
Consolidated earnings contribution	35% to 45%
Total assets	\$18.5 billion
Electric generating capacity	7,530 MW
Gas storage capacity	14.7 Bcf

NSP-Wisconsin

NSP-Wisconsin conducts business in Wisconsin and Michigan and generates, transmits, distributes and sells electricity as managed on the NSP System. NSP-Wisconsin also purchases, transports, distributes and sells natural gas to retail customers and transports customer-owned natural gas.

NSP-Wisconsin

Electric customers	0.3 million
Natural gas customers	0.1 million
Consolidated earnings contribution	5% to 10%
Total assets	\$2.7 billion
Electric generating capacity	563 MW
Gas storage capacity	3.6 Bcf

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PSCo

PSCo conducts business in Colorado and generates, purchases, transmits, distributes and sells electricity in addition to purchasing, transporting, distributing and selling natural gas to retail customers and transporting customer-owned natural gas.

PSCo

Electric customers	1.5 million
Natural gas customers	1.4 million
Consolidated earnings contribution	35% to 45%
Total assets	\$17.3 billion
Electric generating capacity	5,685 MW
Gas storage capacity	27.1 Bcf

SPS

SPS conducts business in Texas and New Mexico and generates, purchases, transmits, distributes and sells electricity.

SPS

Electric customers	0.4 million
Consolidated earnings contribution	15% to 20%
Total assets	\$6.7 billion
Electric generating capacity	4,406 MW

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ELECTRIC UTILITY OPERATIONS

Electric Operating Statistics

	Year Ended Dec. 31		
	2018	2017	2016
Electric sales (Millions of KWh)			
Residential	25,518	24,216	24,726
Large C&I	28,686	27,951	27,664
Small C&I	36,308	35,493	35,830
Public authorities and other	1,071	1,055	1,103
Total retail	91,583	88,715	89,323
Sales for resale	24,199	18,349	18,694
Total energy sold	115,782	107,064	108,017
Number of customers at end of period			
Residential	3,117,262	3,082,974	3,053,732
Large C&I	1,253	1,241	1,228
Small C&I	436,836	433,883	432,012
Public authorities and other	69,794	69,376	68,935
Total retail	3,625,145	3,587,474	3,555,907
Wholesale	70	58	52
Total customers	3,625,215	3,587,532	3,555,959
Electric revenues (Millions of Dollars)			
Residential	\$3,006	\$2,975	\$2,966
Large C&I	1,696	1,779	1,707
Small C&I	3,343	3,463	3,328
Public authorities and other	136	143	140
Total retail	8,181	8,360	8,141
Wholesale	801	719	693
Other electric revenues	737	597	666
Total electric revenues	\$9,719	\$9,676	\$9,500
KWh sales per retail customer	25,263	24,729	25,120
Revenue per retail customer	\$2,257	\$2,330	\$2,289
Residential revenue per KWh	11.78¢	12.29 ¢	11.99 ¢
Large C&I revenue per KWh	5.91	6.36	6.17
Small C&I revenue per KWh	9.21	9.76	9.29
Total retail revenue per KWh	8.93	9.42	9.11
Wholesale revenue per KWh	3.31	3.92	3.71

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Energy Sources 2018

*Distributed generation from the Solar*Rewards® program is not included (approximately 432 million KWh for 2018).

Energy Source Statistics

	Xcel Energy	NSP System	PSCo	SPS
2018				
Owned Generation	67 %	77 %	70 %	49 %
Purchased Generation	33	23	30	51
	100 %	100 %	100%	100%
2017				
Owned Generation	66 %	75 %	70 %	47 %
Purchased Generation	34	25	30	53
	100 %	100 %	100%	100%

Renewable Sources

Xcel Energy's renewable energy portfolio includes wind, hydroelectric, biomass and solar power from both owned generating facilities and PPAs. As of Dec. 31, 2018, each utility or system was in compliance with their applicable RPS. Renewable percentages will vary year over year based on local weather, system demand and transmission constraints.

NSP System

Renewable energy as a percentage of the NSP System's total:

	2018	2017
Wind	16.4%	18.3%
Hydroelectric	5.8	6.3
Biomass and solar	4.8	4.2
Renewable	27.0%	28.8%

Wind — The NSP System has more than 130 PPAs ranging from under one MW to more than 200 MW. The NSP System owns and operates five wind farms with 840 MW, net, of capacity.

The NSP System had approximately 2,550 MW and 2,600 MW of wind energy on its system at the end of 2018 and 2017, respectively.

• Average cost per MWh of wind energy under existing PPAs was approximately \$44 for 2018 and 2017.

• Average cost per MWh of wind energy from owned generation was approximately \$37 and \$42 for 2018 and 2017, respectively.

PSCo

Renewable energy as a percentage of PSCo's total:

	2018	2017
Wind	23.8%	23.7%
Hydroelectric and solar	3.6	3.9
Renewable	27.4%	27.6%

Wind — PSCo has 19 PPAs ranging from two MW to over 300 MW. PSCo owns and operates the Rush Creek wind farm which has 600 MW, net, of capacity.

PSCo had approximately 3,160 MW and 2,560 MW of wind energy on its system at the end of 2018 and 2017, respectively.

• Average cost per MWh of wind energy under these contracts was approximately \$43 and \$42 for 2018 and 2017, respectively.

Rush Creek became operational in December 2018. The 2019 average cost per MWh is expected to be \$29.
SPS

Renewable energy as a percentage of SPS' total:

	2018	2017
Wind	19.1%	21.2%
Solar	2.0	2.8
Renewable	21.1%	24.0%

Wind — SPS has 18 PPAs with facilities ranging from under one MW to 250 MW.

SPS had approximately 1,565 MW and 1,500 MW of wind energy on its system at the end of 2018 and 2017, respectively.

Average cost per MWh of wind energy under the IPP contracts and QF tariffs was approximately \$26 and \$27 for 2018 and 2017, respectively.

In 2018, SPS began construction on the Sagamore and Hale County wind farms. Refer to the SPS Wind Development section for further information.

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Non-Renewable Sources

Delivered cost per MMBtu of each significant category of fuel consumed for owned electric generation and the percentage of total fuel requirements represented by each category of fuel:

	Coal ^(a)		Nuclear		Natural Gas	
	Cost	Percent	Cost	Percent	Cost	Percent
NSP System						
2018	\$2.13	42 %	\$0.80	45 %	\$3.87	13 %
2017	2.08	45	0.78	45	4.10	10
PSCo						
2018	1.45	62	—	—	3.74	38
2017	1.56	70	—	—	3.82	30
SPS						
2018	2.04	56	—	—	2.24	44
2017	2.18	74	—	—	3.39	26

^(a) Includes refuse-derived fuel and wood for the NSP System.

Weighted average cost per MMBtu of all fuels for owned electric generation:

	NSP System	PSCo	SPS
2018	\$ 1.78	\$2.33	\$2.13
2017	1.72	2.25	2.50

See Items 1A and 7 for further information.

Coal — Inventory maintained (in days):

	Normal	Dec. 31, 2018 Actual	Dec. 31, 2017 Actual ^(a)
NSP System	35 - 50	47	53
PSCo	35 - 50	48	48
SPS	35 - 50	44	52

^(a) Milder weather, purchase commitments and low power and natural gas prices impacted coal inventory levels.

Coal requirements (in million tons):

	2018	2017
NSP System	7.8	8.0
PSCo	9.4	10.0
SPS	5.1	5.5

Coal supply as a percentage of requirements (in million tons) for 2019:

	Contracted Coal Supply	2019 Estimated Requirements
NSP System ^(a)	76%	^(b) 8.4
PSCo ^(a)	83	8.4
SPS ^(a)	64	4.1

^(a) The general coal purchasing objective is to contract for approximately 75% of first year requirements, 40% of year two requirements and 20% of year three requirements.

^(b) Increase in estimated million tons was due to lower delivered coal prices at Sherco in January 2019, combined with higher future forecasted gas prices for 2019 (higher burn forecast).

Contracted coal transportation as a percentage of requirements in 2019 and 2020:

	2019	2020
NSP System	100%	100%
PSCo	100	100
SPS	100	100

Natural Gas — Natural gas supplies, transportation and storage services for power plants are procured to provide an adequate supply of fuel. Remaining requirements are procured through a liquid spot market. Generally, natural gas

supply contracts have variable pricing that is tied to natural gas indices. Natural gas supply and transportation agreements include obligations for the purchase and/or delivery of specified volumes or payments in lieu of delivery. Contracts and commitments at Dec. 31:

(Millions of Dollars)	NSP System		PSCo		SPS	
	Gas Supply and Storage (a)	Gas Transportation (b)	Gas Supply (b)	Gas Transportation and Storage (a)	Gas Supply and Storage (a)	Gas Transportation (a)
2018	\$ 406	\$ 412	\$ 589	\$ 20	\$ 152	
2017	—	398	545	620	11	191
Year of Expiration	N/A	2020 - 2037	2021	2019 - 2040	One year or less	2019 - 2033

(a) For incremental supplies, there are limited on-site fuel storage facilities, with a primary reliance on the spot market. Majority of natural gas supply under contract is covered by a long-term agreement with Anadarko Energy Services

(b) Company and the balance of natural gas supply contracts have variable pricing features tied to changes in various natural gas indices. PSCo hedges a portion of that risk through financial instruments. See Note 10 to the consolidated financial statements for further information.

Nuclear — NSP-Minnesota secures contracts for uranium concentrates, uranium conversion, uranium enrichment and fuel fabrication to operate its nuclear plants. The contract strategy involves a portfolio of spot purchases and medium and long-term contracts for uranium concentrates, conversion services and enrichment services with multiple producers and with a focus on diversification to minimize potential impacts caused by supply interruptions due to geographical and world political issues.

Current nuclear fuel supply contracts cover 100% of uranium concentrates requirements through 2021 and approximately 51% of the requirements for 2022 - 2033.

Current contracts for conversion services cover 100% of the requirements through 2021 and approximately 43% of the requirements for 2022 - 2033.

Current enrichment service contracts cover 100% of the requirements through 2025 and approximately 19% of the requirements for 2026 - 2033.

Fabrication services for Monticello and PI are 100% committed through 2030 and 2027, respectively.

NSP-Minnesota expects sufficient uranium concentrates, conversion services and enrichment services to be available for the requirements of its nuclear generating plants. Some exposure to market price volatility will remain due to index-based pricing structures contained in supply contracts.

See Item 7 for further information.

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Capacity and Demand

Uninterrupted system peak demand and date for the regulated utilities:

	System Peak Demand (in MW)			
	2018		2017	
NSP System ^(a)	8,927	June 29	8,546	July 17
PSCo ^(a)	6,718	July 10	6,671	July 19
SPS ^(a)	4,648	July 19	4,374	July 26

^(a) Peak demand typically occurs in the summer. The increase in peak load from 2017 to 2018 is partly due to warmer weather in 2018.

NSP-Minnesota

Public Utility Regulation

Summary of Regulatory Agencies and Areas of Jurisdiction — Retail rates, services and other aspects of NSP-Minnesota's operations are regulated by the MPUC, NDPSC and SDPUC. The MPUC also has regulatory authority over security issuances, certain property transfers, mergers, dispositions of assets and transactions between NSP-Minnesota and its affiliates. In addition, the MPUC reviews and approves NSP-Minnesota's IRPs for meeting future energy needs. In addition, MPUC certifies the need and siting for generating plants greater than 50 MW and transmission lines greater than 100 KV that will be located within the state. The NDPSC and SDPUC have regulatory authority over generation and transmission facilities, along with the siting and routing of new generation and transmission facilities in North Dakota and South Dakota, respectively.

NSP-Minnesota is subject to the jurisdiction of the FERC for its wholesale electric operations, hydroelectric licensing, accounting practices, wholesale sales for resale, transmission of electricity in interstate commerce, compliance with NERC electric reliability standards, asset transfers and mergers, and natural gas transactions in interstate commerce. NSP-Minnesota is a transmission owning member of the MISO RTO and operates within the MISO RTO and MISO wholesale markets. NSP-Minnesota makes wholesale sales in other RTO markets at market-based rates.

NSP-Minnesota and NSP-Wisconsin also make wholesale electric sales at market-based prices to customers outside of their balancing authority as jointly authorized by the FERC.

Fuel, Purchased Energy and Conservation Cost-Recovery

Mechanisms —

• CIP rider — Recovers the costs of conservation and demand-side management programs.

• EIR — Recovers the costs of environmental improvement projects.

• RDF — Allocates money collected from retail customers to support the research and development of emerging renewable energy projects and technologies.

• RES — Recovers the cost of renewable generation in Minnesota.

• RER — Recovers the cost of renewable generation located in North Dakota.

• SEP — Recovers costs related to various energy policies approved by the Minnesota legislature.

• TCR — Recovers costs associated with investments in electric transmission and distribution grid modernization costs.

• Infrastructure rider — Recovers costs for investments in generation and incremental property taxes in South Dakota.

NSP-Minnesota's retail electric rates in Minnesota, North Dakota and South Dakota include a FCA for monthly billing adjustments to recover changes in prudently incurred costs of fuel related items and purchased energy. Capacity costs are recovered through base rates and are not recovered through the FCA. Costs associated with MISO are generally recovered through either the FCA or base rates.

In 2017, the MPUC voted to change the FCA process in Minnesota. Under the new process, each month utilities would collect amounts equal to the baseline cost of energy set at the start of the plan year (base would be reset annually). Monthly variations to the baseline costs would be tracked and netted over a 12-month period. Utilities would issue refunds above the baseline costs, and could seek recovery of any overage. Recently, the MPUC delayed implementation until January 2020.

Minnesota state law requires NSP-Minnesota to invest 2% of its state electric revenues and 0.5% of its state gas revenues in CIP. These costs are recovered through an annual cost-recovery mechanism for electric conservation and energy management program expenditures.

Energy Sources and Transmission Service Provider

NSP-Minnesota expects to use power plants, power purchases, CIP/DSM options, new generation facilities and expansion of power plants to meet its system capacity requirements.

Purchased Power — NSP-Minnesota has contracts to purchase power from other utilities and IPPs. Long-term purchased power contracts for dispatchable resources typically require a capacity charge and an energy charge. NSP-Minnesota makes short-term purchases to meet system requirements, replace company owned generation, meet operating reserve obligations or obtain energy at a lower cost.

Purchased Transmission Services — NSP-Minnesota and NSP-Wisconsin have contracts with MISO and other regional transmission service providers to deliver power and energy to their customers.

Wind Development — In 2017, the MPUC approved NSP-Minnesota's proposal to add 1,550 MW of new wind generation including ownership of 1,150 MW of wind generation.

In April 2018, the MPUC approved NSP-Minnesota's petition to build and own the Dakota Range, a 300 MW wind project in South Dakota. NSP-Minnesota's capital investment for the Dakota Range is expected to be approximately \$350 million and placed in service in 2021.

In December 2018, the NDPSC approved a settlement agreement for these wind development projects.

PPA Terminations and Amendments — In June 2018, NSP-Minnesota terminated the Benson and Laurentian PPAs, and purchased the Benson biomass facility. As a result, a \$103 million regulatory asset was recognized for the costs of the Benson transaction. For Laurentian, a regulatory asset of \$109 million was recognized for annual termination payments/obligations. Regulatory approvals provide for recovery of the Benson regulatory asset over 10 years and Laurentian termination payments as they occur (over six years). Termination of the PPAs is expected to save customers over \$600 million throughout the next 10 years.

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Jurisdictional Cost Recovery Allocation — In December 2016, NSP-Minnesota filed a resource treatment framework with the NDPSC and MPUC. The filing proposed a framework to allow NSP-Minnesota's operations in North Dakota and Minnesota to gradually become more independent of one another with respect to future generation resource selection while also identifying a path for cost sharing of current resources. NSP-Minnesota's filing identified two options: a legal separation, creating a separate North Dakota operating company; or a pseudo-separation, which maintains the current corporate structure but directly assigns the costs and benefits of each resource to the jurisdiction that supports it. Docket remains under consideration by the NDPSC.

Minnesota State ROFR Statute Complaint — In September 2017, LSP Transmission filed a complaint in the Minnesota District Court against the Minnesota Attorney General, MPUC and DOC. The complaint was in response to MISO assigning NSP-Minnesota and ITC Midwest, LLC to jointly own a new 345 KV transmission line from near Mankato, Minnesota to Winnebago, Minnesota. The project was estimated by MISO to cost \$108 million and was assigned to NSP-Minnesota and ITC Midwest as the incumbent utilities, consistent with a Minnesota state ROFR statute. The complaint challenged the constitutionality of the state ROFR statute and is seeking declaratory judgment that the statute violates the Commerce Clause of the U.S. Constitution and should not be enforced. The Minnesota state agencies and NSP-Minnesota filed motions to dismiss. In June 2018, the Minnesota District Court granted the defendants' motions to dismiss with prejudice. LSP Transmission filed an appeal in July 2018. It is uncertain when a decision will be rendered.

Nuclear Power Operations and Waste Disposal

NSP-Minnesota owns two nuclear generating plants: the Monticello plant and the PI plant. Nuclear power plant operations produce gaseous, liquid and solid radioactive wastes which are controlled by federal regulation. High-level radioactive wastes primarily include used nuclear fuel. LLW consists primarily of demineralizer resins, paper, protective clothing, rags, tools and equipment that have become contaminated through use in a plant.

NRC Regulation — The NRC regulates nuclear operations. Costs of complying with NRC requirements can affect both operating expenses and capital investments of the plants. NSP-Minnesota has obtained recovery of these compliance costs in customer rates and expects future compliance costs will continue to be recoverable.

LLW Disposal — LLW from NSP-Minnesota's Monticello and PI nuclear plants is currently disposed at the Clive facility located in Utah and the Waste Control Specialists facility located in Texas. If off-site LLW disposal facilities become unavailable, NSP-Minnesota has storage capacity available on-site at PI and Monticello which would allow both plants to continue to operate until the end of their current licensed lives.

High-Level Radioactive Waste Disposal — The federal government has responsibility to permanently dispose domestic spent nuclear fuel and other high-level radioactive wastes. The Nuclear Waste Policy Act requires the DOE to implement a program for nuclear high-level waste management. This includes the siting, licensing, construction and operation of a repository for spent nuclear fuel from civilian nuclear power reactors and other high-level radioactive wastes at a permanent federal storage or disposal facility. The federal government has been evaluating a nuclear geologic repository at Yucca Mountain, Nevada for many years. Currently, there are no definitive plans for a permanent federal storage facility at Yucca Mountain or any other site.

Review of PI Costs — As part of NSP-Minnesota's 2016 multi-year electric rate case and IRP, the MPUC ordered an investigation into NSP-Minnesota's PI nuclear investments. The issue was resolved as part of the 2016 multi-year electric rate case settlement. In November 2018, the DOC issued a final report, in which no cost disallowances were recommended.

Nuclear Spent Fuel Storage — NSP-Minnesota has interim on-site storage for spent nuclear fuel at its Monticello and PI nuclear generating plants. Authorized storage capacity is sufficient to allow NSP-Minnesota to operate until the end of the operating licenses in 2030 for Monticello, 2033 for PI Unit 1, and 2034 for PI Unit 2. Authorizations for additional spent fuel storage capacity may be required at each site to support either continued operation or decommissioning if the federal government does not commence storage operations.

In 2013, NSP-Minnesota's Monticello nuclear generating plant loaded and placed five storage canisters (canisters #11-15) in the ISFSI and a sixth canister (canister #16) was loaded but remained in the plant pending resolution of weld inspection issues. Successful pressure and leak testing demonstrated the safety and integrity of all six canisters

involved. NSP-Minnesota took several actions to assure compliance with the NRC's regulations and Monticello's storage license. The NRC has approved NSP-Minnesota's compliance plan for all canisters.

NSP-Minnesota intends to seek recovery of these costs in a future regulatory proceeding. No public safety issues have been raised, or are believed to exist, in this matter.

See Note 12 to the consolidated financial statements for further information.

Wholesale and Commodity Marketing Operations

NSP-Minnesota conducts various wholesale marketing operations, including the purchase and sale of electric capacity, energy, ancillary services and energy-related products. NSP-Minnesota uses physical and financial instruments to minimize commodity price and credit risk and hedge sales and purchases. NSP-Minnesota also engages in trading activity unrelated to hedging and sharing of any margins is determined through state regulatory proceedings as well as the operation of the FERC approved JOA. NSP-Minnesota does not serve any wholesale requirements customers at cost-based regulated rates.

NSP-Wisconsin

Public Utility Regulation

Summary of Regulatory Agencies and Areas of Jurisdiction — Retail rates, services and other aspects of NSP-Wisconsin's operations are regulated by the PSCW and the MPSC. In addition, each of the state commissions certifies the need for new generating plants and electric transmission lines before the facilities may be sited and built. NSP-Wisconsin is subject to the jurisdiction of the FERC for its wholesale electric operations, hydroelectric generation licensing, accounting practices, wholesale sales for resale, transmission of electricity in interstate commerce, compliance with NERC electric reliability standards, asset transactions and mergers and natural gas transactions in interstate commerce. NSP-Wisconsin is a transmission owning member of the MISO RTO that operates within the MISO RTO and wholesale energy market. NSP-Wisconsin and NSP-Minnesota are jointly authorized by the FERC to make wholesale electric sales at market-based prices.

The PSCW has a biennial base rate filing requirement. By June of each odd numbered year, NSP-Wisconsin must submit a rate filing for the test year beginning the following January.

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Fuel and Purchased Energy Cost Recovery Mechanisms — NSP-Wisconsin does not have an automatic electric fuel adjustment clause. Instead, under Wisconsin rules, utilities submit a forward-looking annual fuel cost plan to the PSCW. Once the PSCW approves the fuel cost plan, utilities defer the amount of any fuel cost under-recovery or over-recovery in excess of a 2% annual tolerance band, for future rate recovery or refund. Approval of a fuel cost plan and any rate adjustment for refund or recovery of deferred costs is determined by the PSCW. Rate recovery of deferred fuel cost is subject to an earnings test based on the utility's most recently authorized ROE. Fuel cost under-collections that exceed the 2% annual tolerance band may not be recovered if the utility earnings for that year exceed the authorized ROE.

NSP-Wisconsin's electric fuel costs for 2018 were lower than authorized in rates and outside the 2% annual tolerance band, primarily due to greater than forecasted generation sales into the MISO market and lower purchased power costs coupled with moderate weather. Under the fuel cost recovery rules, NSP-Wisconsin retained approximately \$3.6 million of fuel costs and deferred approximately \$2.8 million. NSP-Wisconsin will file a reconciliation of 2018 fuel costs with the PSCW by March 31, 2019.

NSP-Wisconsin's retail electric rate schedules for Michigan customers include power supply cost recovery factors, which are based on 12-month projections. After each 12-month period, a reconciliation is submitted whereby over-recoveries are refunded and any under-recoveries are collected from customers.

Wisconsin Energy Efficiency Program — The primary energy efficiency program is funded by the state's utilities, but operated by independent contractors subject to oversight by the PSCW and utilities. NSP-Wisconsin recovers these costs from retail customers.

Transmission Initiatives

NSP-Wisconsin operates an integrated system with NSP-Minnesota. See NSP-Minnesota-Energy Sources and Transmission Service Provider.

NSP-Wisconsin / American Transmission Company, LLC - La Crosse to Madison, WI Transmission Line — In December 2018, construction was completed on the Badger Coulee 345 KV transmission line. The line extends from La Crosse, WI. to Madison, WI. NSP-Wisconsin's half of the line is shared with Dairyland Power Cooperative, WPPI Energy and Southern Minnesota Municipal Power Agency-Wisconsin.

Wholesale and Commodity Marketing Operations

NSP-Wisconsin does not serve any wholesale requirements customers at cost-based regulated rates.

PSCo

Public Utility Regulation

Summary of Regulatory Agencies and Areas of Jurisdiction — PSCo is regulated by the CPUC with respect to its facilities, rates, accounts, services and issuance of securities. PSCo is regulated by the FERC for its wholesale electric operations, accounting practices, hydroelectric licensing, wholesale sales for resale, transmission of electricity in interstate commerce, compliance with the NERC electric reliability standards, asset transactions and mergers and natural gas transactions in interstate commerce. PSCo is not presently a member of an RTO and does not operate within an RTO energy market. However, PSCo does make certain sales to other RTO's, including SPP. PSCo makes wholesale electric sales at cost-based prices to customers inside PSCo's balancing authority area and at market-based prices to customers outside PSCo's balancing authority area as authorized by the FERC.

Fuel, Purchased Energy and Conservation Cost-Recovery Mechanisms

ECA — Recovers fuel and purchased energy costs. Short-term sales margins are shared with retail customers through the ECA. The ECA is revised quarterly.

PCCA — Recovers purchased capacity payments.

SCA — Recovers the difference between PSCo's actual cost of fuel and costs recovered under its steam service rates. The SCA rate is revised quarterly.

DSMCA — Recovers DSM, interruptible service costs and performance initiatives for achieving energy savings goals.

RESA — Recovers the incremental costs of compliance with the RES with a maximum of 2% of the customer's bill.

WCA — Recovers costs for customers who choose renewable resources.

TCR — Recovers costs for transmission investment outside of rate cases.

CACJA — Recovers costs associated with the CACJA.

PSCo recovers fuel and purchased energy costs from its wholesale electric customers through a fuel cost adjustment clause approved by the FERC. Wholesale customers pay their jurisdictional allocation of production costs through a fully forecasted formula rate with true-up.

Energy Sources and Transmission Service Providers

PSCo expects to meet its system capacity requirements through electric generating stations, power purchases, new generation facilities, DSM options and expansion of generation plants.

Purchased Power — PSCo purchases power from other utilities and IPPs. Long-term purchased power contracts for dispatchable resources typically require capacity and energy charges. It also contracts to purchase power for both wind and solar resources. PSCo makes short-term purchases to meet system load and energy requirements, replace owned generation, meet operating reserve obligations, or obtain energy at a lower cost.

Purchased Transmission Services — In addition to using its own transmission system, PSCo has contracts with regional transmission service providers to deliver energy to its customers.

Wind Development — In 2018, PSCo completed construction and placed in service its Rush Creek 600 MW wind farm in Colorado.

CEP — In September 2018, the CPUC approved PSCo's preferred CEP portfolio, which included the retirement of two coal-fired generation units, Comanche Unit 1 (in 2022) and Comanche Unit 2 (in 2025), and the following additions:

Total Capacity	PSCo's Ownership
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Wind generation