XCEL ENERGY INC
Form 10-Q
July 28, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017
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. x 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). x Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 x	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company ¨
(Do not check if 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 Exchange Act). ¨ Yes x 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 July 24, 2017
Common Stock, $2.50 par value	507,762,881 shares

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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. The electric production and transmission system of NSP-Minnesota and NSP-Wisconsin, which is operated on an integrated basis and is managed by NSP-Minnesota, is referred to collectively as the NSP System. Additional information on the wholly owned subsidiaries is available on various filings with the Securities and Exchange Commission (SEC).

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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 June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Operating revenues				
Electric	$2,338,017	$2,224,142	$4,637,077	$4,409,261
Natural gas	289,839	258,899	915,542	824,588
Other	17,072	16,808	38,731	38,273
Total operating revenues	2,644,928	2,499,849	5,591,350	5,272,122
Operating expenses				
Electric fuel and purchased power	919,099	855,968	1,844,320	1,717,820
Cost of natural gas sold and transported	114,320	90,071	479,454	402,188
Cost of sales — other	8,178	8,332	16,765	16,577
Operating and maintenance expenses	578,133	596,978	1,164,563	1,174,388
Conservation and demand side management expenses	64,860	55,916	132,393	113,352
Depreciation and amortization	365,720	322,534	730,924	642,554
Taxes (other than income taxes)	134,926	138,469	277,020	283,792
Total operating expenses	2,185,236	2,068,268	4,645,439	4,350,671
Operating income	459,692	431,581	945,911	921,451
Other income, net	2,608	1,560	9,054	5,810
Equity earnings of unconsolidated subsidiaries	7,541	9,617	15,416	22,799
Allowance for funds used during construction — equity	16,386	14,730	30,699	27,843
Interest charges and financing costs				
Interest charges — includes other financing costs of $5,876, $6,630, $11,734 and $12,966, respectively	164,195	162,980	330,129	319,423
Allowance for funds used during construction — debt	(7,613)	(6,684)	(14,635)	(12,674)
Total interest charges and financing costs	156,582	156,296	315,494	306,749
Income before income taxes	329,645	301,192	685,586	671,154
Income taxes	102,389	104,397	219,053	233,047
Net income	$227,256	$196,795	$466,533	$438,107
Weighted average common shares outstanding:				
Basic	508,542	508,930	508,411	508,789
Diluted	509,135	509,490	508,955	509,311
Earnings per average common share:				

Basic	$0.45	$0.39	$0.92	$0.86
Diluted	0.45	0.39	0.92	0.86
Cash dividends declared per common share	$0.36	$0.34	$0.72	$0.68

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

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Net income	$227,256	$196,795	$466,533	$438,107
Other comprehensive income				
Pension and retiree medical benefits:				
Amortization of losses included in net periodic benefit cost, net of tax of $608, $550, $1,223 and $407, respectively	956	865	1,904	1,076
Derivative instruments:				
Net fair value increase, net of tax of $17, $7, $17 and $5, respectively	26	12	26	8
Reclassification of losses to net income, net of tax of $511, $594, $1,045 and $1,198, respectively	803	936	1,628	1,874
	829	948	1,654	1,882
Marketable securities:				
Net fair value increase, net of tax of $0, $0, $0 and $0, respectively	1	—	1	—
Other comprehensive income	1,786	1,813	3,559	2,958
Comprehensive income	$229,042	$198,608	$470,092	$441,065

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

	Six Months Ended June 30	
	2017	2016
Operating activities		
Net income	$466,533	$438,107
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	738,280	650,336
Conservation and demand side management program amortization	1,509	2,323
Nuclear fuel amortization	57,003	58,267
Deferred income taxes	309,239	252,889
Amortization of investment tax credits	(2,557)	(2,613)
Allowance for equity funds used during construction	(30,699)	(27,843)
Equity earnings of unconsolidated subsidiaries	(15,416)	(22,799)
Dividends from unconsolidated subsidiaries	23,507	22,910
Share-based compensation expense	31,892	24,454
Net realized and unrealized hedging and derivative transactions	217	3,903
Other, net	(2,441)	(388)
Changes in operating assets and liabilities:		
Accounts receivable	16,906	35,042
Accrued unbilled revenues	121,333	65,159
Inventories	65,433	81,880
Other current assets	(84,024)	69,493
Accounts payable	(52,349)	27,805
Net regulatory assets and liabilities	1,498	34,264
Other current liabilities	(190,184)	(151,589)
Pension and other employee benefit obligations	(140,479)	(108,562)
Change in other noncurrent assets	(6,676)	(6,363)
Change in other noncurrent liabilities	(16,706)	(21,649)
Net cash provided by operating activities	1,291,819	1,425,026
Investing activities		
Utility capital/construction expenditures	(1,473,793)	(1,413,129)
Proceeds from insurance recoveries	—	1,595
Allowance for equity funds used during construction	30,699	27,843
Purchases of investment securities	(368,266)	(319,880)
Proceeds from the sale of investment securities	350,448	262,321
Investments in WYCO Development LLC and other	(7,683)	(2,170)
Other, net	(5,483)	100
Net cash used in investing activities	(1,474,078)	(1,443,320)
Financing activities		
Proceeds from (repayments of) short-term borrowings, net	392,000	(399,000)
Proceeds from issuance of long-term debt	394,046	1,337,430
Repayments of long-term debt	(250,397)	(579,976)
Repurchases of common stock	(2,943)	(789)

Dividends paid	(355,250)	(335,113)
Other	(18,291)	(12,487)
Net cash provided by financing activities	159,165	10,065
Net change in cash and cash equivalents	(23,094)	(8,229)
Cash and cash equivalents at beginning of period	84,476	84,940
Cash and cash equivalents at end of period	$61,382	$76,711
Supplemental disclosure of cash flow information:		
Cash paid for interest (net of amounts capitalized)	$(301,350)	$(293,954)
Cash (paid) received for income taxes, net	(3,853)	61,345
Supplemental disclosure of non-cash investing and financing transactions:		
Property, plant and equipment additions in accounts payable	$233,250	$252,370
Issuance of common stock for equity awards	18,505	13,497

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

	June 30, 2017	Dec. 31, 2016
Assets		
Current assets		
Cash and cash equivalents	$61,382	$84,476
Accounts receivable, net	759,378	776,289
Accrued unbilled revenues	608,499	729,832
Inventories	542,044	604,226
Regulatory assets	375,020	363,655
Derivative instruments	78,487	38,224
Prepaid taxes	196,247	106,697
Prepayments and other	135,493	138,682
Total current assets	2,756,550	2,842,081
Property, plant and equipment, net	33,543,843	32,841,750
Other assets		
Nuclear decommissioning fund and other investments	2,231,588	2,091,858
Regulatory assets	3,023,128	3,080,867
Derivative instruments	50,410	50,189
Other	255,470	248,532
Total other assets	5,560,596	5,471,446
Total assets	$41,860,989	$41,155,277
Liabilities and Equity		
Current liabilities		
Current portion of long-term debt	$505,345	$255,529
Short-term debt	784,000	392,000
Accounts payable	973,642	1,044,959
Regulatory liabilities	261,171	220,894
Taxes accrued	339,966	457,392
Accrued interest	175,849	172,901
Dividends payable	182,795	172,456
Derivative instruments	28,019	26,959
Other	439,917	503,953
Total current liabilities	3,690,704	3,247,043
Deferred credits and other liabilities		
Deferred income taxes	7,130,715	6,784,319
Deferred investment tax credits	60,659	63,216
Regulatory liabilities	1,386,675	1,383,212
Asset retirement obligations	2,849,532	2,782,229
Derivative instruments	136,255	148,146
Customer advances	190,640	195,214

Pension and employee benefit obligations	975,606	1,112,366
Other	225,215	223,965
Total deferred credits and other liabilities	12,955,297	12,692,667
Commitments and contingencies		
Capitalization		
Long-term debt	14,091,833	14,194,718
Common stock — 1,000,000,000 shares authorized of $2.50 par value; 507,762,881 and 507,222,795 shares outstanding at June 30, 2017 and Dec. 31, 2016, respectively	1,269,407	1,268,057
Additional paid in capital	5,881,475	5,881,494
Retained earnings	4,079,068	3,981,652
Accumulated other comprehensive loss	(106,795)	(110,354)
Total common stockholders' equity	11,123,155	11,020,849
Total liabilities and equity	$41,860,989	$41,155,277

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

	Common Stock Issued					
	Shares	Par Value	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Common Stockholders' Equity
Three Months Ended June 30, 2017 and 2016						
Balance at March 31, 2016	507,953	$1,269,882	$5,889,939	$3,620,421	$ (108,608)	$10,671,634
Net income				196,795		196,795
Other comprehensive income					1,813	1,813
Dividends declared on common stock				(173,563)		(173,563)
Issuances of common stock	—	—	(187)			(187)
Share-based compensation			6,642			6,642
Balance at June 30, 2016	507,953	$1,269,882	$5,896,394	$3,643,653	$ (106,795)	$10,703,134
Balance at March 31, 2017	507,763	$1,269,407	$5,872,933	$4,036,352	$ (108,581)	$11,070,111
Net income				227,256		227,256
Other comprehensive income					1,786	1,786
Dividends declared on common stock				(183,738)		(183,738)
Share-based compensation			8,542	(802)		7,740
Balance at June 30, 2017	507,763	$1,269,407	$5,881,475	$4,079,068	$ (106,795)	$11,123,155

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

	Common Stock Issued				Accumulated	Total
	Shares	Par Value	Additional Paid In Capital	Retained Earnings	Other Comprehensive Loss	Common Stockholders' Equity
Six Months Ended June 30, 2017 and 2016						
Balance at Dec. 31, 2015	507,536	$1,268,839	$5,889,106	$3,552,728	$ (109,753)	$10,600,920
Net income				438,107		438,107
Other comprehensive income					2,958	2,958
Dividends declared on common stock				(347,182)		(347,182)
Issuances of common stock	417	1,043	(3,942)			(2,899)
Repurchases of common stock			(789)			(789)
Share-based compensation			12,019			12,019
Balance at June 30, 2016	507,953	$1,269,882	$5,896,394	$3,643,653	$ (106,795)	$10,703,134
Balance at Dec. 31, 2016	507,223	$1,268,057	$5,881,494	$3,981,652	$ (110,354)	$11,020,849
Net income				466,533		466,533
Other comprehensive income					3,559	3,559
Dividends declared on common stock				(367,553)		(367,553)
Issuances of common stock	611	1,527	3,510			5,037
Repurchases of common stock	(71)	(177)	(2,943)			(3,120)
Share-based compensation			(586)	(1,564)		(2,150)
Balance at June 30, 2017	507,763	$1,269,407	$5,881,475	$4,079,068	$ (106,795)	$11,123,155

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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 June 30, 2017 and Dec. 31, 2016; the results of its operations, including the components of net income and comprehensive income, and changes in stockholders' equity for the three and six months ended June 30, 2017 and 2016; and its cash flows for the six months ended June 30, 2017 and 2016. All adjustments are of a normal, recurring nature, except as otherwise disclosed. Management has also evaluated the impact of events occurring after June 30, 2017 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, 2016 balance sheet information has been derived from the audited 2016 consolidated financial statements included in the Xcel Energy Inc. Annual Report on Form 10-K for the year ended Dec. 31, 2016. 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, 2016, filed with the SEC on Feb. 24, 2017. 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, 2016, appropriately represent, in all material respects, the current status of accounting policies and are incorporated herein by reference.

2. Accounting Pronouncements

Recently Issued

Revenue Recognition — In May 2014, the Financial Accounting Standards Board (FASB) issued Revenue from Contracts with Customers, Topic 606 (Accounting Standards Update (ASU) No. 2014-09), which provides a new framework for the recognition of revenue. Xcel Energy expects its adoption will result in increased disclosures regarding revenue, cash flows and obligations related to arrangements with customers, as well as separate presentation of alternative revenue programs. Xcel Energy has not yet fully determined the impacts of adoption for several aspects of the standard, including a determination whether and how much an evaluation of the collectability of regulated electric and gas revenues will impact the amounts of revenue recognized upon delivery. Xcel Energy currently expects to implement the standard on a modified retrospective basis, which requires application to contracts with customers effective Jan. 1, 2018, with the cumulative impact on contracts not yet completed as of Dec. 31, 2017 recognized as an adjustment to the opening balance of retained earnings.

Classification and Measurement of Financial Instruments — In January 2016, the FASB issued Recognition and Measurement of Financial Assets and Financial Liabilities, Subtopic 825-10 (ASU No. 2016-01), which eliminates the available-for-sale classification for marketable equity securities and also replaces the cost method of accounting for non-marketable equity securities with a model for recognizing impairments and observable price changes. Under the new standard, other than when the consolidation or equity method of accounting is utilized, changes in the fair value of equity securities are to be recognized in earnings. This guidance will be effective for interim and annual reporting periods beginning after Dec. 15, 2017. Xcel Energy expects that as a result of application of accounting principles for rate regulated entities, changes in the fair value of the securities in the nuclear decommissioning fund, currently classified as available-for-sale, will continue to be deferred to a regulatory asset, and that the overall impacts of the Jan. 1, 2018 adoption will not be material.

Leases — In February 2016, the FASB issued Leases, Topic 842 (ASU No. 2016-02), which for lessees requires balance sheet recognition of right-of-use assets and lease liabilities for most leases. This guidance will be effective for interim and annual reporting periods beginning after Dec. 15, 2018. Xcel Energy has not yet fully determined the impacts of implementation. However, adoption is expected to occur on Jan. 1, 2019 utilizing the practical expedients provided by the standard. As such, agreements entered prior to Jan. 1, 2017 that are currently considered leases are expected to be recognized on the consolidated balance sheet, including contracts for use of office space, equipment and natural gas storage assets, as well as certain purchased power agreements (PPAs) for natural gas-fueled generating facilities. Xcel Energy expects that similar agreements entered after Dec. 31, 2016 will generally qualify as leases under the new standard, but has not yet completed its evaluation of certain other contracts, including arrangements for the secondary use of assets, such as land easements.

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Presentation of Net Periodic Benefit Cost — In March 2017, the FASB issued Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, Topic 715 (ASU No. 2017-07), which establishes that only the service cost element of pension cost may be presented as a component of operating income in the income statement. Also under the guidance, only the service cost component of pension cost is eligible for capitalization. Xcel Energy has not yet fully determined the impacts of adoption of the standard, but expects that as a result of application of accounting principles for rate regulated entities, a similar amount of pension cost, including non-service components, will be recognized consistent with the current ratemaking treatment and that the impacts of adoption will be limited to changes in classification of non-service costs in the consolidated statement of income. This guidance will be effective for interim and annual reporting periods beginning after Dec. 15, 2017.

Recently Adopted

Stock Compensation — In March 2016, the FASB issued Improvements to Employee Share-Based Payment Accounting, Topic 718 (ASU No. 2016-09), which simplifies accounting and financial statement presentation for share-based payment transactions. The guidance requires that the difference between the tax deduction available upon settlement of share-based equity awards and the tax benefit accumulated over the vesting period be recognized as an adjustment to income tax expense. Xcel Energy adopted the guidance in 2016, resulting in immaterial 2016 adjustments to income tax expense and changes in classification of cash flows related to tax withholding in the consolidated statements of cash flows for the years ended Dec. 31, 2016, 2015 and 2014.

3. Selected Balance Sheet Data

(Thousands of Dollars)	June 30, 2017	Dec. 31, 2016
Accounts receivable, net		
Accounts receivable	$808,705	$827,112
Less allowance for bad debts	(49,327)	(50,823)
	$759,378	$776,289

(Thousands of Dollars)	June 30, 2017	Dec. 31, 2016
Inventories		
Materials and supplies	$321,426	$312,430
Fuel	156,736	181,752
Natural gas	63,882	110,044
	$542,044	$604,226

(Thousands of Dollars)	June 30, 2017	Dec. 31, 2016
Property, plant and equipment, net		
Electric plant	$38,810,158	$38,220,765
Natural gas plant	5,465,224	5,317,717
Common and other property	1,959,703	1,888,518
Plant to be retired [(a)]	17,820	31,839
Construction work in progress	1,571,362	1,373,380
Total property, plant and equipment	47,824,267	46,832,219
Less accumulated depreciation	(14,703,391)	(14,381,603)
Nuclear fuel	2,660,606	2,571,770
Less accumulated amortization	(2,237,639)	(2,180,636)
	$33,543,843	$32,841,750

(a) In the second half of 2017, PSCo expects to both early retire Valmont Unit 5 and convert Cherokee Unit 4 from a coal-fueled generating facility to natural gas. PSCo also expects Craig Unit 1 to be early retired in approximately 2025. Amounts are presented net of accumulated depreciation.

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4. Income Taxes

Except to the extent noted below, 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, 2016 appropriately represents, in all material respects, the current status of other income tax matters, and are incorporated herein by reference.

Federal Loss Carryback Claims — In 2012-2015, Xcel Energy identified certain expenses related to 2009, 2010, 2011, 2013, 2014 and 2015 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 $5 million in 2015, $17 million in 2014, $12 million in 2013 and $15 million in 2012.

Federal Audits — Xcel Energy files a consolidated federal income tax return. The statute of limitations applicable to Xcel Energy's 2009 through 2013 federal income tax returns, following extensions, expires in December 2017.

In 2012, the Internal Revenue Service (IRS) commenced an examination of tax years 2010 and 2011, including the 2009 carryback claim. The IRS has proposed an adjustment to the federal tax loss carryback claims that would result in $14 million of income tax expense for the 2009 through 2011 claims, and the 2013 through 2015 claims. In 2016 the IRS audit team and Xcel Energy presented their cases to the Office of Appeals; however, the outcome and timing of a resolution is uncertain.

In the third quarter of 2015, the IRS commenced an examination of tax years 2012 and 2013. In the second quarter of 2017, the IRS proposed an adjustment to tax year 2012 that may impact Xcel Energy's net operating loss (NOL) and effective tax rate (ETR). Xcel Energy is evaluating the IRS' proposal and 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 June 30, 2017, 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	2012

- In 2016, Minnesota began an audit of years 2010 through 2014. As of June 30, 2017, Minnesota had not proposed any adjustments;
- In 2016, Texas began an audit of years 2009 and 2010. As of June 30, 2017, Texas had not proposed any material adjustments;
- In 2016, Wisconsin began an audit of years 2012 and 2013. As of June 30, 2017, Wisconsin had not proposed any material adjustments; and
- As of June 30, 2017, there were no other state income tax audits in progress.

Unrecognized Benefits — The unrecognized tax benefit balance includes permanent tax positions, which if recognized would affect the annual 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.

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

(Millions of Dollars)	June 30, 2017	Dec. 31, 2016
Unrecognized tax benefit — Permanent tax positions	$ 30.8	$ 29.6
Unrecognized tax benefit — Temporary tax positions	106.6	104.1
Total unrecognized tax benefit	$ 137.4	$ 133.7

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

(Millions of Dollars)	June 30, 2017	Dec. 31, 2016
NOL and tax credit carryforwards	$ (47.4)	$ (43.8)

It is reasonably possible that Xcel Energy's amount of unrecognized tax benefits could significantly change in the next 12 months as the IRS Appeals and audit progress, the Minnesota, Texas and Wisconsin audits progress, and other state audits resume. As the IRS Appeals and IRS, Minnesota, Texas and Wisconsin audits progress, it is reasonably possible that the amount of unrecognized tax benefit could decrease up to approximately $61 million.

The payable for interest related to unrecognized tax benefits is partially offset by the interest benefit associated with NOL and tax credit carryforwards. A reconciliation of the beginning and ending amount of the payable for interest related to unrecognized tax benefits are as follows:

(Millions of Dollars)	June 30, 2017	Dec. 31, 2016
Payable for interest related to unrecognized tax benefits at beginning of period	$ (3.4)	$ (0.1)
Interest expense related to unrecognized tax benefits recorded during the period	(1.7)	(3.3)
Payable for interest related to unrecognized tax benefits at end of period	$ (5.1)	$ (3.4)

No amounts were accrued for penalties related to unrecognized tax benefits as of June 30, 2017 or Dec. 31, 2016.

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, 2016 and in Note 5 to Xcel Energy Inc.'s Quarterly Report on
Form 10-Q for the quarterly period ended March 31, 2017, appropriately represent, in all material respects, the current status of other rate matters, and are incorporated herein by reference.

NSP-Minnesota

Pending and Recently Concluded Regulatory Proceedings — Minnesota Public Utilities Commission (MPUC)

Minnesota 2016 Multi-Year Electric Rate Case — In June 2017, the MPUC issued a written order. NSP-Minnesota estimates the total rate increase to be approximately $245 million over the four-year period covering 2016-2019.

Key terms:

- Four-year period covering 2016-2019;
- Annual sales true-up;
- Return on equity (ROE) of 9.2 percent and an equity ratio of 52.5 percent;
- Nuclear related costs will not be considered provisional;
- Continued use of all existing riders, however no new riders may be utilized during the four-year term;
- Deferral of incremental 2016 property tax expense above a fixed threshold to 2018 and 2019;
- Four-year stay-out provision for rate cases;
- Property tax true-up mechanism for 2017-2019; and

•Capital expenditure true-up mechanism for 2016-2019.

(Millions of Dollars, incremental)	2016	2017	2018	2019	Total
Revenues	$74.99	$59.86	$ —	$50.12	$184.97
NSP-Minnesota's sales true-up	59.95	—	—	(0.20)	59.75
Total rate impact	$134.94	$59.86	$ —	$49.92	$244.72

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Annual Automatic Adjustment of Fuel Clause Charges — In 2016, the Minnesota Department of Commerce (DOC) recommended the MPUC should hold utilities responsible for incremental costs of replacement power incurred due to unplanned outages at nuclear facilities under certain circumstances. In May 2017, the MPUC voted to disallow approximately $4.4 million of replacement energy costs for the Prairie Island (PI) nuclear facility outages allocated to the Minnesota jurisdiction in 2015. This disallowance was recognized in the second quarter of 2017. The MPUC issued a written order in July 2017. In addition, the DOC is currently reviewing nuclear costs and operations under the initial rate case and resource plan orders as well as the recently finalized rate case.

NSP-Wisconsin

Pending Regulatory Proceeding — Public Service Commission of Wisconsin (PSCW)

Wisconsin 2018 Electric and Natural Gas Rate Case — In May 2017, NSP-Wisconsin filed a request with the PSCW to increase electric rates by $24.7 million, or 3.6 percent, and natural gas rates by $12.0 million, or 10.1 percent, effective January 2018. The rate filing is based on a 2018 forecast test year, a ROE of 10.0 percent, an equity ratio of 52.53 percent and a forecasted average net investment rate base of approximately $1.2 billion for the electric utility and $138.4 million for the natural gas utility.

Key dates in the procedural schedule are as follows:

- Staff and intervenor testimony — Sept. 12, 2017;
- Rebuttal testimony — Sept. 26, 2017;
- Sur-rebuttal testimony — Oct. 3, 2017; and
- Hearing — Oct. 5, 2017.

A PSCW decision is anticipated in the fourth quarter of 2017.

PSCo

Pending and Recently Concluded Regulatory Proceedings — Colorado Public Utilities Commission (CPUC)

Multi-Year Natural Gas Rate Case — In June 2017, PSCo filed a multi-year request with the CPUC seeking to increase retail natural gas rates to recover capital investments and increased operating costs since PSCo’s previous case in 2015. The request, detailed below, is based on forecast test years, a 10.0 percent ROE and an equity ratio of 55.25 percent.

Revenue Request (Millions of Dollars)	2018	2019	2020	Total
New revenue request	$63.2	$32.9	$42.9	$139.0
Pipeline System Integrity Adjustment (PSIA) revenue conversion to base rates [(a)]	—	93.9	—	93.9
Total	$63.2	$126.8	$42.9	$232.9
Expected Year-End Rate Base (Billions of dollars) [(b)]	$1.5	$2.3	$2.4	N/A

[(a)] The roll-in of PSIA rider revenue into base rates will not have an impact on customer bills or total revenue as these costs are already being recovered from customers through the rider. PSCo plans to request new PSIA rates for 2018 in November 2017. The recovery of new, incremental PSIA related investments in 2019 and 2020 are included in the base rate request.

[(b)] The additional rate base in 2019 predominantly reflects the roll-in of capital associated with the PSIA rider.

Final rates are expected to be effective in February 2018. In conjunction with the multi-year base rate step increases, PSCo is also proposing a stay-out provision and an earnings test through the end of 2020.

Annual Electric Earnings Test — PSCo must share with customers earnings that exceed the authorized ROE of 9.83 percent for 2015 through 2017, as part of an annual earnings test. In July 2017, the CPUC approved PSCo's 2016 earnings test, which does not result in any earnings sharing. The current estimate of the 2017 earnings test, based on annual forecasted information, did not result in the recognition of a liability as of June 30, 2017.

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SPS

Pending and Recently Concluded Regulatory Proceedings — Public Utility Commission of Texas (PUCT)

Appeal of the Texas 2015 Electric Rate Case Decision — In 2014, SPS had requested an overall retail electric revenue rate increase of $42.1 million. In 2015, the PUCT approved an overall rate decrease of approximately $4.0 million, net of rate case expenses. In April 2016, SPS filed an appeal, with the Texas State District Court, of the PUCT's order that had denied SPS' request for rehearing on certain items in SPS' Texas 2015 electric rate case related to capital structure, incentive compensation and wholesale load reductions. In March 2017, the Travis County District Court denied SPS' appeal. In April 2017, SPS appealed the District Court's decision to the Court of Appeals.

Texas 2016 Transmission Cost Recovery Factor (TCRF) Application — In February 2017, SPS filed with the PUCT to recover additional annual revenue of approximately $16.1 million through its TCRF, or 1.8 percent. The filing was based upon capital transmission additions made during 2016. In June 2017, the PUCT approved TCRF rider recovery of approximately $14.4 million effective immediately.

Pending Regulatory Proceeding — New Mexico Public Regulation Commission (NMPRC)

New Mexico 2016 Electric Rate Case — In November 2016, SPS filed an electric rate case with the NMPRC seeking an increase in base rates of approximately $41.4 million, representing a total revenue increase of approximately 10.9 percent. The rate filing is based on a requested ROE of 10.1 percent, an equity ratio of 53.97 percent, an electric rate base of approximately $832 million and a future test year ending June 30, 2018.

On April 10, 2017, the hearing examiner determined that SPS' rate filing was deficient and recommended the NMPRC extend the procedural schedule by approximately one month and restart the suspension period once it is determined that the deficiencies are resolved. On April 19, 2017, the NMPRC dismissed SPS' rate case. On May 15, 2017, SPS filed a notice of appeal to the New Mexico Supreme Court. A decision from the New Mexico Supreme Court is not expected until the second or third quarter of 2018.

Pending Regulatory Proceeding — Federal Energy Regulatory Commission (FERC)

Midcontinent Independent System Operator, Inc. (MISO) ROE Complaints — In November 2013, a group of customers filed a complaint at the FERC against MISO transmission owners (TOs), including NSP-Minnesota and NSP-Wisconsin. The complaint argued for a reduction in the ROE in transmission formula rates in the MISO region from 12.38 percent to 9.15 percent, and the removal of ROE adders (including those for Regional Transmission Organization (RTO) membership), effective Nov. 12, 2013.

In December 2015, an administrative law judge (ALJ) recommended the FERC approve a base ROE of 10.32 percent for the MISO TOs. The ALJ found the existing 12.38 percent ROE to be unjust and unreasonable. The recommended 10.32 percent ROE applied a FERC ROE policy adopted in a June 2014 order (Opinion 531). The FERC approved the ALJ recommended 10.32 percent base ROE in an order issued in September 2016. This ROE would be applicable for the 15 month refund period from Nov. 12, 2013 to Feb. 11, 2015, and prospectively from the date of the FERC order. The total prospective ROE would be 10.82 percent, including a 50 basis point adder for RTO membership. Various parties requested rehearing of the September 2016 order. The requests are pending FERC action.

In February 2015, a second complaint seeking to reduce the MISO ROE from 12.38 percent to 8.67 percent prior to any adder was filed with the FERC, resulting in a second period of potential refund from Feb. 12, 2015 to May 11, 2016. In June 2016, the ALJ recommended a ROE of 9.7 percent, applying the methodology adopted by the FERC in

Opinion 531. A final FERC decision on the second ROE complaint was expected later in 2017, but in April 2017, the United States Court of Appeals for the District of Columbia Circuit (D.C. Circuit) by opinion, vacated and remanded Opinion 531. It is unclear how the D.C. Circuit's opinion to vacate and remand Opinion 531 will affect the September 2016 FERC order or the timing and outcome of the second ROE complaint. The MISO TOs are evaluating the impact of the D.C. Circuit ruling on the November 2013 and February 2015 ROE complaints.

As of June 30, 2017, NSP-Minnesota has processed the refunds for the Nov. 12, 2013 to Feb. 11, 2015 complaint period based on the 10.32 percent ROE provided in the September 2016 FERC order. NSP-Minnesota has also recognized a current refund liability consistent with the best estimate of the final ROE for the Feb. 12, 2015 to May 11, 2016 complaint period.

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6. Commitments and Contingencies

Except to the extent noted below and in Note 5 above, the circumstances set forth in Notes 12, 13 and 14 to the consolidated financial statements included in Xcel Energy Inc.’s Annual Report on Form 10-K for the year ended Dec. 31, 2016, and in Notes 5 and 6 to the
consolidated financial statements included in Xcel Energy Inc.’s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2017 appropriately represent, in all material respects, the current status of commitments and contingent liabilities and are incorporated herein by reference. The following include commitments, contingencies and unresolved contingencies that are material to Xcel Energy’s financial position.

PPAs

Under certain PPAs, NSP-Minnesota, PSCo and SPS purchase power from independent power producing entities for which the utility subsidiaries are required to reimburse natural gas or biomass fuel costs, or to participate in tolling arrangements under which the utility subsidiaries procure the natural gas required to produce the energy that they purchase. These specific PPAs create a variable interest in the associated independent power producing entity.

The Xcel Energy utility subsidiaries had approximately 3,537 megawatts (MW) of capacity under long-term PPAs as of June 30, 2017 and Dec. 31, 2016, with entities that have been determined to be variable interest entities. Xcel Energy has concluded that these entities are not required to be consolidated in its consolidated financial statements because it does not have the power to direct the activities that most significantly impact the entities’ economic performance. These agreements have expiration dates through 2041.

Guarantees and Bond Indemnifications

Xcel Energy Inc. and its subsidiaries provide guarantees and bond indemnities under specified agreements or transactions. The guarantees and bond indemnities issued by Xcel Energy Inc. guarantee payment or performance by its subsidiaries. As a result, Xcel Energy Inc.’s exposure under the guarantees and bond indemnities is based upon the net liability of the relevant subsidiary under the specified agreements or transactions. Most of the guarantees and bond indemnities issued by Xcel Energy Inc. and its subsidiaries have a stated maximum guarantee or indemnity amount. As of June 30, 2017 and Dec. 31, 2016, Xcel Energy Inc. and its subsidiaries had no assets held as collateral related to their guarantees, bond indemnities and indemnification agreements.

The following table presents guarantees and bond indemnities issued and outstanding for Xcel Energy:

(Millions of Dollars)	June 30, 2017	Dec. 31, 2016
Guarantees issued and outstanding	$ 18.3	$ 18.8
Current exposure under these guarantees	—	0.1
Bonds with indemnity protection	49.4	43.0

Other Indemnification Agreements

Xcel Energy Inc. and its subsidiaries provide indemnifications through contracts entered into in the normal course of business. These are primarily indemnifications against adverse litigation outcomes in connection with underwriting agreements, as well as breaches of representations and warranties, including corporate existence, transaction authorization and income tax matters with respect to assets sold. Xcel Energy Inc.’s and its subsidiaries’ obligations under these agreements may be limited in terms of duration and amount. The maximum future payments under these indemnifications cannot be reasonably estimated as the dollar amounts are often not explicitly stated.

Environmental Contingencies

Ashland Manufactured Gas Plant (MGP) Site — NSP-Wisconsin was named a potentially responsible party (PRP) for contamination at a site in Ashland, Wis. The Ashland/Northern States Power Lakefront Superfund Site (the Site) includes NSP-Wisconsin property, previously operated as a MGP facility (the Upper Bluff), and two other properties: an adjacent city lakeshore park area (Kreher Park); and an area of Lake Superior's Chequamegon Bay adjoining the park.

In 2012, NSP-Wisconsin agreed to remediate the Phase I Project Area (which includes the Upper Bluff and Kreher Park areas of the Site), under a settlement agreement with the United States Environmental Protection Agency (EPA). NSP-Wisconsin performed a wet dredge pilot study in 2016 and demonstrated that a wet dredge remedy can meet the performance standards for remediation of the Phase II Project Area (the Sediments). As a result, the EPA authorized NSP-Wisconsin to extend the wet dredge pilot to additional areas of the Site. In January 2017, NSP-Wisconsin agreed to remediate the Sediments, under a settlement agreement with the EPA. The settlement was approved by the U.S. District Court for the Western District of Wisconsin. NSP-Wisconsin has initiated field activities to perform a full scale wet dredge remedy of the Sediments in 2017, with performance of restoration activities in 2018.

The current cost estimate for the entire site is approximately $160.0 million, of which approximately $113.2 million has been spent. At June 30, 2017 and Dec. 31, 2016, NSP-Wisconsin had recorded a total liability of $46.8 million and $64.3 million, respectively, for the entire site.

NSP-Wisconsin has deferred the unrecovered portion of the estimated Site remediation costs as a regulatory asset. The PSCW has authorized NSP-Wisconsin rate recovery for all remediation costs incurred at the Site. In 2012, the PSCW agreed to allow NSP-Wisconsin to pre-collect certain costs, to amortize costs over a ten-year period and to apply a three percent carrying cost to the unamortized regulatory asset. In May 2017, NSP-Wisconsin filed a natural gas rate case which included recovery of additional expenses associated with remediating the Site. If approved, the annual recovery of MGP clean-up costs would increase from $12.4 million in 2017 to $18.1 million in 2018.

Fargo, N.D. MGP Site — In May 2015, underground pipes, tars and impacted soils were discovered in a right-of-way in Fargo, N.D. that appeared to be associated with a former MGP operated by NSP-Minnesota or prior companies. NSP-Minnesota removed impacted soils and other materials from the right-of-way and commenced an investigation of the historic MGP and adjacent properties (the Fargo MGP Site). NSP-Minnesota has recommended that targeted source removal of impacted soils and historic MGP infrastructure should be performed. The North Dakota Department of Health approved NSP-Minnesota’s proposed cleanup plan in January 2017. The timing and final scope of remediation is dependent on whether reasonable access is provided to NSP-Minnesota to perform and implement the approved cleanup plan. NSP-Minnesota has also initiated insurance recovery litigation in North Dakota. The U.S. District Court for the District of North Dakota agreed to the parties’ request for a stay of the litigation until September 2017.

As of June 30, 2017 and Dec. 31, 2016, NSP-Minnesota had recorded a liability of $16.4 million and $11.3 million, respectively, for the Fargo MGP Site. The current cost estimate for the remediation of the site is approximately $23.0 million, of which approximately $6.6 million has been spent. In December 2015, the North Dakota Public Service Commission (NDPSC) approved NSP-Minnesota’s request to defer costs associated with the Fargo MGP Site, resulting in deferral of all investigation and response costs with the exception of approximately 12 percent allocable to the Minnesota jurisdiction. Uncertainties related to the liability recognized include obtaining access to perform the approved remediation (including the prospective purchase of the historic MGP property), final designs that will be developed to implement the approved cleanup plan and the potential for contributions from entities that may be identified as PRPs.

Other MGP and Landfill Sites — Xcel Energy is currently involved in investigating and/or remediating several other MGP and landfill sites. Xcel Energy has identified ten sites across its service territories in addition to the sites in Ashland, Wis. and Fargo, N.D., where former MGP or landfill disposal activities have or may have resulted in site contamination and are under current investigation and/or remediation. At some or all of these sites, there are other parties that may have responsibility for some portion of any remediation. Xcel Energy anticipates that the majority of the investigation or remediation at these sites will continue through at least 2018. Xcel Energy had accrued $2.9 million and $2.0 million for these sites at June 30, 2017 and Dec. 31, 2016, respectively. There may be insurance recovery and/or recovery from other PRPs to offset any costs incurred. Xcel Energy anticipates that any significant amounts incurred will be recovered from customers.

Environmental Requirements

Water and Waste

Federal Clean Water Act (CWA) Waters of the United States Rule — In 2015, the EPA and the U.S. Army Corps of Engineers (Corps) published a final rule that significantly expands the types of water bodies regulated under the CWA and broadens the scope of waters subject to federal jurisdiction. The final rule will subject more utility projects to federal CWA jurisdiction, thereby potentially delaying the siting of new generation projects, pipelines, transmission lines and distribution lines, as well as increasing project costs and expanding permitting and reporting requirements. In October 2015, the U.S. Court of Appeals for the Sixth Circuit issued a nationwide stay of the final rule and subsequently ruled that it, rather than the federal district courts, had jurisdiction over challenges to the rule. In January 2017, the U.S. Supreme Court agreed to resolve the dispute as to which court should hear challenges to the rule. A ruling is expected by the end of 2017.

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In February 2017, President Trump issued an executive order requiring the EPA and the Corps to review and revise the final rule. On June 27, 2017, the agencies issued a proposed rule that rescinds the 2015 final rule and reinstates the prior 1986 definition of “Water of the U.S.”

Air

Greenhouse Gas (GHG) Emission Standard for Existing Sources (Clean Power Plan or CPP) — In 2015, the EPA issued its final rule for existing power plants. Among other things, the rule requires that state plans include enforceable measures to ensure emissions from existing power plants achieve the EPA’s state-specific interim (2022-2029) and final (2030 and thereafter) emission performance targets.

The CPP was challenged by multiple parties in the D.C. Circuit Court. In February 2016, the U.S. Supreme Court issued an order staying the final CPP rule. In September 2016, the D.C. Circuit Court heard oral arguments in the consolidated challenges to the CPP. The stay will remain in effect until the D.C. Circuit Court reaches its decision and the U.S. Supreme Court either declines to review the lower court’s decision or reaches a decision of its own.

In March 2017, President Trump signed an executive order requiring the EPA Administrator to review the CPP rule and if appropriate, publish proposed rules suspending, revising or rescinding it. Accordingly, the EPA has requested that the D.C. Circuit Court hold the litigation in abeyance until the EPA completes its work under the executive order. The D.C. Circuit granted the EPA’s request to hold the litigation in abeyance until June 27, 2017, and is considering briefs by the parties on whether the court should remand the challenges to the EPA rather than holding them in abeyance, to determine whether and how the court continues or ends the stay that currently applies to the CPP. On June 9, 2017, the EPA submitted a proposed rule to the Office of Management and Budget entitled “Review of the Clean Power Plan.”

Regional Haze Rules — The regional haze program is designed to address widespread haze that results from emissions from a multitude of sources. The Best Available Retrofit Technology (BART) requirements of the EPA’s regional haze rules require the installation and operation of emission controls for industrial facilities emitting air pollutants that reduce visibility in national parks and wilderness areas. Under BART, regional haze plans identify facilities that will have to reduce Sulfur Dioxide (SO_2), Nitrogen Oxide (NOx) and particulate matter emissions and set emission limits for those facilities. BART requirements can also be met through participation in interstate emission trading programs such as the Clean Air Interstate Rule (CAIR) and its successor, Cross-State Air Pollution Rule (CSAPR). The regional haze plans developed by Minnesota and Colorado have been fully approved and are being implemented in those states. States are required to revise their plans every ten years. The next plans for Minnesota and Colorado will be due in 2021. Texas’ first regional haze plan is still undergoing federal review as described below. President Trump’s Administration has not yet taken any public position regarding its views of the proposed and final regional haze regulations affecting SPS facilities in Texas.

Actions affecting Harrington Units: Texas developed a State Implementation Plan (SIP) that finds the CAIR equal to BART for electric generating units. As a result, no additional controls beyond CAIR compliance would be required. In 2014, the EPA proposed to approve the BART portion of the SIP, with substitution of CSAPR compliance for Texas’ reliance on CAIR. In January 2016, the EPA adopted a final rule that defers its approval of CSAPR compliance as BART until the EPA considers further adjustments to CSAPR emission budgets under the D.C. Circuit Court’s remand of the Texas SO_2 emission budgets. In June 2016, the EPA issued a memorandum which allows Texas to voluntarily adopt the CSAPR emission budgets limiting annual SO_2 and NOx emissions and rely on those emission budgets to satisfy Texas’ BART obligations under the regional haze rules. The Texas Commission on Environmental Quality has not utilized this option. The EPA then published a proposed rule in January 2017 that could have the effect of requiring installation of dry scrubbers to reduce SO_2 emissions from Harrington Units 1 and 2. Investment costs associated with dry scrubbers for Harrington Units 1 and 2 could be approximately $400 million. The EPA's deadline to issue a final rule for Texas is September 2017.

Actions affecting Tolk units: In January 2016, the EPA adopted a final rule establishing a federal implementation plan for the state of Texas, which imposed SO_2 emission limitations that reflect the installation of dry scrubbers on Tolk Units 1 and 2, with compliance required by February 2021. Investment costs associated with dry scrubbers could be approximately $600 million. SPS appealed the EPA's decision and requested a stay of the final rule. The United States Court of Appeals for the Fifth Circuit (Fifth Circuit) granted the stay and decided that they are the appropriate venue for this case. In March 2017, the Fifth Circuit remanded the rule to the EPA for reconsideration, while leaving the stay in effect. The Fifth Circuit is now holding the case in abeyance until the EPA completes its reconsideration of the rule. It is likely that Texas and other affected entities including SPS would continue to challenge the determinations to date. The risk of these controls being imposed along with the risk of investments to provide cooling water to Tolk have caused SPS to seek to decrease the remaining depreciable life of the Tolk units.

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Revisions to the National Ambient Air Quality Standard (NAAQS) for Ozone — In 2015, the EPA revised the NAAQS for ozone by lowering the eight-hour standard from 75 parts per billion (ppb) to 70 ppb. In areas where Xcel Energy operates, current monitored air quality concentrations comply with the new standard in the Twin Cities Metropolitan Area in Minnesota and meet the 70 ppb level in the Texas panhandle. In documents issued with the new standard, the EPA projects that both areas will meet the new standard. The Denver Metropolitan Area is currently not meeting the prior ozone standard and will therefore not meet the new, more stringent standard, however PSCo's scheduled retirement of coal fired plants in Denver that began in 2011 and will be completed in August 2017, should help in any plan to mitigate non-attainment. In June 2017, the EPA announced that it is delaying designations of nonattainment areas under the 2015 ozone NAAQS to October 2018 to allow it to complete its review of the 2015 ozone NAAQS.

Legal Contingencies

Xcel Energy is involved in various litigation matters that are being defended and handled in the ordinary course of business. The assessment of whether a loss is probable or is a reasonable possibility, and whether the loss or a range of loss is estimable, often involves a series of complex judgments about future events. Management maintains accruals for such losses that are probable of being incurred and subject to reasonable estimation. Management is sometimes unable to estimate an amount or range of a reasonably possible loss in certain situations, including but not limited to when (1) the damages sought are indeterminate, (2) the proceedings are in the early stages, or (3) the matters involve novel or unsettled legal theories. In such cases, there is considerable uncertainty regarding the timing or ultimate resolution of such matters, including a possible eventual loss. For current proceedings not specifically reported herein, management does not anticipate that the ultimate liabilities, if any, arising from such current proceedings would have a material effect on Xcel Energy's financial statements. Unless otherwise required by GAAP, legal fees are expensed as incurred.

Employment, Tort and Commercial Litigation

Gas Trading Litigation — e prime, inc. (e prime) is a wholly owned subsidiary of Xcel Energy. e prime was in the business of natural gas trading and marketing but has not engaged in natural gas trading or marketing activities since 2003. Thirteen lawsuits were commenced against e prime and Xcel Energy (and NSP-Wisconsin, in two instances) between 2003 and 2009 alleging fraud and anticompetitive activities in conspiring to restrain the trade of natural gas and manipulate natural gas prices.

The cases were consolidated in U.S. District Court in Nevada. Five of the cases have since been settled and seven remain active, which includes one multi-district litigation (MDL) matter consisting of a Colorado class (Breckenridge), a Wisconsin class (NSP-Wisconsin), a Kansas class, and two other cases identified as "Sinclair Oil" and "Farmland." In November 2016, the MDL judge dismissed e prime and Xcel Energy from the Farmland lawsuit, and Farmland has appealed the dismissal. Motions for summary judgment were filed by defendants, including e prime, in all of the remaining lawsuits. In March 2017, the U.S. District Court issued an order dismissing the claims against e prime in the Sinclair Oil lawsuit and denied plaintiffs motions for class certification in the other lawsuits. The U.S. District Court did not grant e prime's summary judgment motions in the Wisconsin or Colorado cases. There are currently additional motions brought by e prime for reconsideration and summary judgment pending in the U.S. District Court. Xcel Energy, NSP-Wisconsin and e prime have concluded that a loss is remote.

Line Extension Disputes — In December 2015, Development Recovery Company (DRC) filed a lawsuit in Denver State Court, stating PSCo failed to award proper allowances and refunds for line extensions to new developments pursuant to the terms of electric and gas service agreements entered into by PSCo and various developers. The dispute involves claims by over fifty developers. In May 2016, the district court granted PSCo's motion to dismiss the lawsuit, concluding that jurisdiction over this dispute resides with the CPUC. In June 2016, DRC appealed the district court's dismissal of the lawsuit, and the Colorado Court of Appeals affirmed the lower court decision in favor of PSCo. In July 2017, DRC filed a petition to appeal the decision with the Colorado Supreme Court. It is uncertain whether the Colorado Supreme Court will grant the petition. DRC also brought a proceeding before the CPUC as assignee on behalf of two developers, Ryland Homes and Richmond Homes of Colorado. In March 2016, the ALJ issued an order rejecting DRC’s claims for additional allowances and refunds. In June 2016, the ALJ’s determination was approved by the CPUC. DRC did not file a request for reconsideration before the CPUC contesting the decision, but filed an appeal in Denver District Court in August 2016. DRC has requested a hearing for oral arguments, which has yet to be granted or set by the Denver District Court.

PSCo has concluded that a loss is remote with respect to this matter as the service agreements were developed to implement CPUC approved tariffs and PSCo has complied with the tariff provisions. Also, if a loss were sustained, PSCo believes it would be allowed to recover these costs through traditional regulatory mechanisms. The amount or range in dispute is presently unknown and no accrual has been recorded for this matter.

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7. Borrowings and Other Financing Instruments

Short-Term Borrowings

Money Pool — Xcel Energy Inc. and its utility subsidiaries have established a money pool arrangement that allows for short-term investments in and borrowings between the utility subsidiaries. NSP-Wisconsin does not participate in the money pool. Xcel Energy Inc. may make investments in the utility subsidiaries at market-based interest rates; however, the money pool arrangement does not allow the utility subsidiaries to make investments in Xcel Energy Inc. The money pool balances are eliminated in consolidation.

Commercial Paper — Xcel Energy Inc. and its utility subsidiaries meet their short-term liquidity requirements primarily through the issuance of commercial paper and borrowings under their credit facilities. Commercial paper outstanding for Xcel Energy was as follows:

(Amounts in Millions, Except Interest Rates)	Three Months Ended June 30, 2017	Year Ended Dec. 31, 2016
Borrowing limit	$2,750	$2,750
Amount outstanding at period end	784	392
Average amount outstanding	778	485
Maximum amount outstanding	1,247	1,183
Weighted average interest rate, computed on a daily basis	1.28 %	0.74 %
Weighted average interest rate at period end	1.49	0.95

Letters of Credit — Xcel Energy Inc. and its subsidiaries use letters of credit, generally with terms of one year, to provide financial guarantees for certain operating obligations. At June 30, 2017 and Dec. 31, 2016, there were $14 million and $19 million, respectively, of letters of credit outstanding under the credit facilities. The contract amounts of these letters of credit approximate their fair value and are subject to fees.

Credit Facilities — In order to use their commercial paper programs to fulfill short-term funding needs, Xcel Energy Inc. and its utility subsidiaries must have revolving credit facilities in place at least equal to the amount of their respective commercial paper borrowing limits and cannot issue commercial paper in an aggregate amount exceeding available capacity under these credit facilities. The lines of credit provide short-term financing in the form of notes payable to banks, letters of credit and back-up support for commercial paper borrowings.

At June 30, 2017, Xcel Energy Inc. and its utility subsidiaries had the following committed credit facilities available:

(Millions of Dollars)	Credit Facility [(a)]	Drawn [(b)]	Available
Xcel Energy Inc.	$ 1,000	$ 549	$ 451
PSCo	700	3	697
NSP-Minnesota	500	91	409
SPS	400	109	291
NSP-Wisconsin	150	46	104
Total	$ 2,750	$ 798	$ 1,952

(a) These credit facilities expire in June 2021.
(b) Includes outstanding commercial paper and letters of credit.

All credit facility bank borrowings, outstanding letters of credit and outstanding commercial paper reduce the available capacity under the respective credit facilities. Xcel Energy Inc. and its subsidiaries had no direct advances on the credit facilities outstanding at June 30, 2017 and Dec. 31, 2016.

Long-Term Borrowings

PSCo issued $400 million of 3.80 percent first mortgage bonds due June 15, 2047.

8. Fair Value of Financial Assets and Liabilities

Fair Value Measurements

The accounting guidance for fair value measurements and disclosures provides a single definition of fair value and requires certain disclosures about assets and liabilities measured at fair value. A hierarchical framework for disclosing the observability of the inputs utilized in measuring assets and liabilities at fair value is established by this guidance. The three levels in the hierarchy are as follows:

Level 1 — Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. The types of assets and liabilities included in Level 1 are highly liquid and actively traded instruments with quoted prices.

Level 2 — Pricing inputs are other than quoted prices in active markets, but are either directly or indirectly observable as of the reporting date. The types of assets and liabilities included in Level 2 are typically either comparable to actively traded securities or contracts, or priced with models using highly observable inputs.

Level 3 — Significant inputs to pricing have little or no observability as of the reporting date. The types of assets and liabilities included in Level 3 are those valued with models requiring significant management judgment or estimation.

Specific valuation methods include the following:

Cash equivalents — The fair values of cash equivalents are generally based on cost plus accrued interest; money market funds are measured using quoted net asset value (NAV).

Investments in equity securities and other funds — Equity securities are valued using quoted prices in active markets. The fair values for commingled funds are measured using NAVs, which take into consideration the value of underlying fund investments, as well as the other accrued assets and liabilities of a fund, in order to determine a per-share market value. The investments in commingled funds may be redeemed for NAV with proper notice. Proper notice varies by fund and can range from daily with one or two days notice to annually with 90 days notice. Private equity investments require approval of the fund for any unscheduled redemption, and such redemptions may be approved or denied by the fund at its sole discretion. Unscheduled distributions from real estate investments may be redeemed with proper notice, which is typically quarterly with 45-90 days notice; however, withdrawals from real estate investments may be delayed or discounted as a result of fund illiquidity.

Investments in debt securities — Fair values for debt securities are determined by a third party pricing service using recent trades and observable spreads from benchmark interest rates for similar securities.

Interest rate derivatives — The fair values of interest rate derivatives are based on broker quotes that utilize current market interest rate forecasts.

Commodity derivatives — The methods used to measure the fair value of commodity derivative forwards and options utilize forward prices and volatilities, as well as pricing adjustments for specific delivery locations, and are generally assigned a Level 2 classification. When contractual settlements extend to periods beyond those readily observable on active exchanges or quoted by brokers, the significance of the use of less observable forecasts of long-term forward prices and volatilities on a valuation is evaluated, and may result in Level 3 classification.

Electric commodity derivatives held by NSP-Minnesota and SPS include transmission congestion instruments, generally referred to as financial transmission rights (FTRs). FTRs purchased from a RTO are financial instruments that entitle or obligate the holder to monthly revenues or charges based on transmission congestion across a given transmission path. The value of an FTR is derived from, and designed to offset, the cost of transmission congestion. In addition to overall transmission load, congestion is also influenced by the operating schedules of power plants and the consumption of electricity pertinent to a given transmission path. Unplanned plant outages, scheduled plant maintenance, changes in the relative costs of fuels used in generation, weather and overall changes in demand for electricity can each impact the operating schedules of the power plants on the transmission grid and the value of an FTR. The valuation process for FTRs utilizes complex iterative modeling to predict the impacts of forecasted changes in these drivers of transmission system congestion on the historical pricing of FTR purchases.

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If forecasted costs of electric transmission congestion increase or decrease for a given FTR path, the value of that particular FTR instrument will likewise increase or decrease. Fair value measurements for FTRs have been assigned a Level 3 given the limited observability of management's forecasts for several of the inputs to this complex valuation model. Non-trading monthly FTR settlements are included in fuel and purchased energy cost recovery mechanisms as applicable in each jurisdiction, and therefore changes in the fair value of the yet to be settled portions of most FTRs are deferred as a regulatory asset or liability. Given this regulatory treatment and the limited magnitude of FTRs, the numerous unobservable quantitative inputs to the complex model used for valuation of FTRs are insignificant to the consolidated financial statements of Xcel Energy.

Non-Derivative Instruments Fair Value Measurements

Nuclear Decommissioning Fund

The Nuclear Regulatory Commission (NRC) requires NSP-Minnesota to maintain a portfolio of investments to fund the costs of decommissioning its nuclear generating plants. Together with all accumulated earnings or losses, the assets of the nuclear decommissioning fund are legally restricted for the decommissioning the Monticello and PI nuclear generating plants. The fund contains cash equivalents, debt securities, equity securities and other investments – all classified as available-for-sale. NSP-Minnesota plans to reinvest matured securities until decommissioning begins. NSP-Minnesota uses the MPUC approved asset allocation for the escrow and investment targets by asset class for both the escrow and qualified trust.

NSP-Minnesota recognizes the costs of funding the decommissioning of its nuclear generating plants over the lives of the plants, assuming rate recovery of all costs. Given the purpose and legal restrictions on the use of nuclear decommissioning fund assets, realized and unrealized gains on fund investments over the life of the fund are deferred as an offset of NSP-Minnesota's regulatory asset for nuclear decommissioning costs. Consequently, any realized and unrealized gains and losses on securities in the nuclear decommissioning fund, including any other-than-temporary impairments, are deferred as a component of the regulatory asset for nuclear decommissioning.

Unrealized gains for the nuclear decommissioning fund were $462.3 million and $378.6 million at June 30, 2017 and Dec. 31, 2016, respectively, and unrealized losses and amounts recorded as other-than-temporary impairments were $34.2 million and $46.9 million at June 30, 2017 and Dec. 31, 2016, respectively.

The following tables present the cost and fair value of Xcel Energy's non-derivative instruments with recurring fair value measurements in the nuclear decommissioning fund at June 30, 2017 and Dec. 31, 2016:

	June 30, 2017				
		Fair Value			
(Thousands of Dollars)	Cost	Level 1	Level 2	Level 3	Investments Measured at NAV (b)