

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO

PROCEEDING NO. 20A-0114SEG

IN THE MATTER OF THE APPLICATION OF PUBLIC SERVICE COMPANY OF COLORADO FOR AN ORDER AUTHORIZING (1) THE ISSUANCE OF SECURITIES WITH MATURITIES GREATER THAN ONE YEAR IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$2.2 BILLION, (2) ENTERING INTO TREASURY RATE LOCKS AND FORWARD STARTING SWAPS, AND (3) THE RECOVERY OF CERTAIN REFUNDING COSTS.

**DECISION GRANTING APPLICATION
AND VACATING HEARING**

Mailed Date: April 3, 2020
Adopted Date: April 1, 2020

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I. BY THE COMMISSION**A. Statement**

1. On March 20, 2020, Public Service Company of Colorado (Public Service or the Company) filed an Application including exhibits required by Rule 1303 of the Rules of Practice and Procedure, 4 *Code of Colorado Regulations* (CCR) 723-1; Rules 3002 and 3105 of the Rules Regulating Electric Utilities, 4 CCR 723-3; and Rules 4002 and 4105 of the Rules Regulating Gas Utilities and Pipeline Operators, 4 CCR 723-4. On March 26, 2020, Public Service filed an Amended Application. Public Service seeks an Order from the Commission authorizing it:

- 1) to issue and sell from time-to-time prior to December 31, 2022, at its option, in any combination not to exceed \$2.2 billion, one or more of the following types of securities with maturities greater than one year (collectively, the Debt Securities):
 - a) secured debt in one or more series, which may or may not be in the form of First Mortgage Bonds issued pursuant to the 1993 Indenture (FMBs);
 - b) unsecured debt in one or more series issued pursuant to Public Service's Senior Debt Securities Indenture;
- 2) to enter into treasury rate locks and forward starting swaps; and
- 3) to recover certain refunding costs.

2. Such authority will grant Public Service the flexibility to enter the financial markets at a time or times when interest rates or other provisions appear most favorable for the security.

B. Details of the Application

3. The Commission noticed this Application on March 20, 2020, allowing parties until March 30, 2020 to intervene or participate as a party in this proceeding and setting this matter for hearing for April 9, 2020. In addition, Public Service published a notice of the Application in the legal notices of *The Denver Post* on March 23, 2020. An Affidavit of

Publication issued by *The Denver Post* was filed with the Commission on March 25, 2020. Due and proper notice of this matter has been given, and no party seeks intervention or opposes the granting of the Application.

4. Public Service has requested this Commission to determine this matter without hearing and on modified procedure. Because no party has intervened in connection with the Application, it is appropriate that this Commission consider this matter without a hearing in accordance with § 406-109(5), C.R.S., and 4 CCR 723-1-1403.

1. Securities Authorization

5. On November 23, 2016, this Commission issued Decision No. C16-1064 in Proceeding No. 16A-0848SEG authorizing the Company, among other things, to issue \$2.2 million in securities with a maturity greater than one year, to enter into treasury rate locks and forward starting swaps, and to recover certain refunding costs. The long-term authority to issue \$2.2 billion in securities in that decision expired on December 31, 2019. Upon the issuance of the requested order in this proceeding authorizing \$2.2 billion in Debt Securities, the long-term authority to issue \$2.2 billion in securities established in Decision No. C16-1064 will be cancelled.

6. Public Service intends to use the proceeds from the issuance of the Debt Securities for general corporate purposes, including but not limited to capital expenditures, repayment of short-term debt, and refunding of long-term debt at maturity or otherwise at the discretion of the Company's management. All proceeds will be used to support the Company's Colorado operations.

2. Treasury Rate Locks and Forward Starting Swaps Authorization

7. Additionally, in connection with the long-term debt authority requested above, Public Service requests authority to enter into treasury rate locks and forward starting swaps. Treasury rate locks and forward starting swaps are used to reduce market risk exposure as a result of changes in interest rates. Public Service will only enter into treasury rate locks and forward starting swaps related to long-term debt that has been approved by Public Service's Board of Directors. Furthermore, Public Service may hedge up to 25% of the securities issued and is subject to reporting in Paragraph 18 below.

3. Recovery of Certain Refunding Costs Authority

8. Finally, Public Service requests pre-approval of the recovery of redemption premiums, unamortized underwriting costs, and expenses associated with any long-term debt that it refunds prior to maturity (Refunding Costs), with the proceeds from the Debt Securities or from other general corporate funds.

C. Findings of Fact

9. Public Service is a Colorado corporation qualified to do business within the State of Colorado. Its Amended and Restated Articles of Incorporation have been filed with this Commission, and it is in good standing with the Colorado Secretary of State. Public Service provides electric, gas, and steam utility service to various areas in the State of Colorado. The Application has been filed in accordance with § 40-1-104, C.R.S., which requires a public utility to obtain the approval of this Commission before it issues securities such as the Debt Securities or unsecured notes under multi-year credit.

1. Securities Authorization

10. Public Service requests authority to issue and sell Debt Securities from time-to-time prior to December 31, 2022, at its option, in any combination not to exceed \$2.2 billion of Debt Securities.

11. The current authority for Public Service to issue and sell Debt Securities expired on December 31, 2019. Upon the issuance of the requested order authorizing \$2.2 billion in Debt Securities, the authority in Decision No. C16-1064 will be cancelled.

12. The Debt Securities will be issued on such dates as Public Service deems appropriate, from time-to-time prior to December 31, 2022, in an aggregate principal amount not to exceed \$2.2 billion. The type, amount, and length of maturity of the Debt Securities will be decided at the respective times of issuance. The interest rates, whether fixed or variable, and the redemption and sinking fund provisions, if any, will be determined through competitive bidding or by negotiation with purchasers, underwriters, or managers at the time of the pricing of said Debt Securities. Credit enhancement mechanisms relating to the Debt Securities, such as bond insurance or letters of credit, may be used if deemed to be advantageous by Public Service.

13. Public Service may issue and sell the Debt Securities through: (i) a public offering that would be registered with the Securities and Exchange Commission pursuant to the shelf registration provisions of Rule 415 of the Securities Act of 1933, as amended (Securities Act) or such other rule as may be appropriate; or (ii) a private placement pursuant to an exemption from the registration requirements of the Securities Act and may, but need not, subsequently register such privately placed Debt Securities under the Securities Act or exchange such Debt Securities for registered Debt Securities. In the event of such a registration or

exchange, the principal amount of such Debt Securities would be counted only once in calculating the \$2.2 billion limitation requested herein.

14. Public Service intends to use the proceeds from the issuance of the Debt Securities for general corporate purposes, including but not limited to capital expenditures, repayment of short-term debt, and refunding of long-term debt at maturity or otherwise at the discretion of Public Service's management. All proceeds will be used to support Public Service's Colorado operations.

15. Public Service has the following maturities prior to December 31, 2022, which may be refunded using the authority requested from the Commission:

- \$400 million of its 3.200% first mortgage bonds due November 2020
- \$300 million of its 2.250% first mortgage bonds due September 2022
- Potential early redemption of \$250 million 2.500% first mortgage bonds due March 2023

16. In addition to such refunds, Public Service has planned capital expenditures of \$1,400 million per year in 2020, \$1,450 million in 2021, and \$1,700 million in 2022. Public Service expects to fund such capital expenditures with a combination of internally generated funds, issuance of new debt, and equity infusions from its parent.

17. Public Service may issue the Debt Securities in one or more series of secured debt, which may or may not be in the form of FMBs issued pursuant to the 1993 Indenture.

18. Public Service may issue the Debt Securities in one or more series of unsecured debt issued pursuant to Public Service's Senior Debt Securities Indenture.

19. Public Service shall notify the Commission within seven days after initiating a hedge transaction explaining the purposes of the transaction. The Company, after the closing of each Debt Securities issuance, shall make a report to the Commission of such issuances and

accompany such report with confirmed copies of Public Service's registration statements and related prospectuses, and in the case of a private placement, the form of the offering circular and the form of the Security. The Company shall also include a detailed report on hedging transactions to the Commission that includes, but is not limited to why the hedge was made, the details of the hedge, as well as the financial results and relevant market information at the time.

2. Treasury Rate Locks and Forward Starting Swaps Authorization

20. Additionally, in connection with the long-term debt authority requested above, Public Service requests authority to enter into treasury rate locks and forward starting swaps. When pricing a bond, there are three major factors that influence the pricing: (1) the U.S. treasury market; (2) the corporate bond environment; and (3) company specific factors. The price of a bond is based on a benchmark U.S. Treasury security plus a credit spread that reflects the additional risk premium an investor requires over a risk free security to compensate for both the general risk of the corporate bond market and company specific risk factors. The premium attributable to the general corporate bond market is based on investor demand for bonds versus other investment opportunities, new issue supply, and industry related conditions.

21. The benchmark U.S. Treasury security generally is the largest component in pricing a bond. By entering into a treasury rate lock, the Company can mitigate interest rate volatility associated with the U.S. Treasury market. A forward starting swap allows the Company to lock in the risk premium associated with the corporate bond market in addition to the U.S. Treasury component. The third component, company specific factors, is not efficiently hedged.

22. The Company will only enter into treasury rate locks and forward starting swaps related to long-term debt that has been approved by the Company's Board of Directors. As with

any long-term financing the Company undertakes, the Board of Directors will approve the execution of any treasury rate lock or forward starting swap prior to its execution. This procedure is consistent with the Board of Directors' current practice of requiring the Board of Directors to approve the pricing of a long-term financing transaction.

23. Due to the Commission's reluctance to pre-approve the recovery of costs associated with implementing treasury rate locks and swaps in previous applications, Public Service does not request pre-approval in this Application for the recovery of costs associated with rate locks and forward starting swaps; however, Public Service will seek such recovery in future rate proceedings.

24. Public Service shall include in its report to the Commission discussing the Debt Securities, a description of any treasury rate lock or forward starting swap entered into based on the authority granted in this Decision and such description will include the costs incurred in executing the hedging transaction.

3. Recovery of Certain Refunding Costs Authority

25. Finally, Public Service requests pre-approval of the recovery of Refunding Costs with the proceeds from the Debt Securities or from other general corporate funds. Pre-approval of the recovery of Refunding Costs in Public Service's embedded cost of debt is requested only if the refunding maintains or lowers Public Service's embedded cost of debt, inclusive of any costs to do so. The Commission has demonstrated previously that it supports the amortization of expenses prudently incurred to provide service to customers if such amortization is justified, including any associated costs of refunding, and the amortization will reduce the level of current expenses chargeable to customers.

26. In resolutions adopted by Public Service's Board of Directors on January 21, 2020, the Board of Directors authorized: (1) the issuance and sale by the Company of up to \$2.2 billion in an aggregate principal amount of secured or unsecured debt securities with a maturity of greater than one year, in the form of one or more new series of its notes, bonds, debentures, guarantees, and/or First Mortgage Bonds (the Debt Securities); (2) its proper officers to execute and file or cause to be filed with the Securities and Exchange Commission pursuant to the provisions of the Securities Act of 1933, as amended, one or more Registration Statements or post-effective amendments relating to the sale of such Debt Securities; (3) its proper officers to execute and deliver on behalf of the Company, for the purpose of hedging of the interest rates on such Debt Securities, one or more interest rate lock or swap agreements or similar agreements; and (4) its proper officers to cause this Application to be executed and filed with the Colorado Public Utilities Commission.

D. Conclusions

27. Public Service and the issuance of the Debt Securities are subject to the jurisdiction of this Commission in accordance with § 40-1-104, C.R.S.

28. We find the issuance of the Debt Securities, as stated in the Application, will be consistent with the provisions of the public utilities law, is for a lawful purpose, and is not inconsistent with the public interest.

29. We find the Application should be granted and the issuance of the Debt Securities referenced herein should be authorized and approved.

II. ORDER

A. The Commission Orders That:

1. The Application of Public Service Company of Colorado (Public Service) as amended is deemed complete and granted.

2. Public Service is hereby authorized to issue and sell, from time-to-time prior to December 31, 2022, at its option, in any combination not to exceed \$2.2 billion, one or more of the following types of Debt Securities with maturities greater than one year: (1) secured debt in one or more series, which may or may not be in the form of First Mortgage Bonds; and (2) unsecured debt in one or more series issued pursuant to Public Service's Senior Debt Securities Indenture. Credit enhancement mechanisms relating to the Debt Securities, such as bond insurance or letters of credit, may be used if deemed to be advantageous by Public Service. The interest rates, whether fixed or variable, the redemption and sinking fund provision, if any, and the type, amount, and maturity of the Debt Securities may be determined by Public Service at the time of issuance. Upon the issuance of this Decision, the authority in Decision No. C16-1064 issued in No. Proceeding No. 16A-0848SEG on November 23, 2016 is cancelled.

3. Public Service is authorized to enter into treasury rate locks and forward starting swaps related to long-term debt approved by Public Service's Board of Directors.

4. Public Service is authorized to recover and amortize the Refunding Costs associated with Public Service's refunding of long-term debt prior to maturity with proceeds from the Debt Securities or from other general corporate funds. Such Refunding Costs shall include redemption premiums and unamortized underwriting costs and expenses associated with the refunded debt. Pre-approval of the recovery of Refunding Costs in Public Service's

embedded cost of debt is required only if the refunding maintains or lowers Public Service's embedded cost of debt.

5. Public Service is authorized to enter into any agreements necessary to effect the financing transactions contemplated by the Application.

6. Public Service shall file with the Commission copies of all Debt Securities issued thereunder within 60 days of their execution and a report of the issuance of Debt Securities within 60 days. This report shall include confirmed copies of Public Service's registration statements and related prospectuses, and in the case of a private placement, the form of the offering circular and the form of the Security. In addition, the report shall include a description of any treasury rate lock or forward starting swap entered into or passed on the authority granted in this Decision and such description will include the costs incurred in executing the hedging transaction.

7. Nothing contained herein shall be construed to imply any recommendation or guaranty of any obligation with regard to Public Service's Debt Securities approved under the Application on the part of the State of Colorado.

8. The hearing in this matter, now set for April 9, 2020 is vacated.

9. The 20-day period provided for in § 40-6-114, C.R.S., within which to file applications for rehearing, reargument, or reconsideration begins on the first day following the effective date of this Decision.

10. This Decision is effective upon its Mailed Date.

**B. ADOPTED IN COMMISSIONERS' WEEKLY MEETING
April 1, 2020.**

(S E A L)



ATTEST: A TRUE COPY



Doug Dean,
Director

THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

JEFFREY P. ACKERMANN

JOHN GAVAN

MEGAN M. GILMAN

Commissioners