Eksempel på selskapsdialog, mai 2016

Skagen Fondene VS Xcel Energy

Bakgrunn:

I april 2016 svartelistet Oljefondet 52 nye selskaper på bakgrunn av bestemmelsen om at det ikke skulle investeres i selskaper som baserer mer enn 30% av energiproduksjonen på kullkraft. Som et resultat av dette ble det avdekket at aksjefondet Skagen Global var investert i Xcel Energy. Dette selskapet hadde en kraftproduksjon hvor kull utgjorde 43%.

I henhold til våre retningslinjer når slike forhold avdekkes tok vi kontakt med forvalterne av fondet Skagen Global. Dette dokumentet viser dialogen Skagen hadde med Xcel Energy.

I am writing on behalf of the equity fund strategy SKAGEN Global, which is a shareholder in Xcel Energy. Our USD 4.5 billion global strategy holds 1.3 million shares, which is equal to about 1.1 percent of the assets under management and approximately 0.3 percent of the outstanding capital in Xcel Energy.

In April, the USD 900 billion Norwegian Government Pension Fund Global excluded 52 companies in accordance with the sovereign wealth fund's new guidelines on investing in coal companies. In this round, the pension fund has chosen to exclude coal power and mining companies that base 30% or more of their activities on thermal coal, and/or derive 30% of revenues from coal. Xcel Energy was one of the companies on the exclusion list.

As SKAGEN Global's management company is based in Norway, we are frequently subject to questions from customers and the public whenever we find that we hold stocks in companies excluded by the pension fund. We have now received such a query from one of the larger distributors of mutual funds in the Norwegian market.

We have noted Xcel Energy's proposed accelerated transition from coal energy to renewables, including the closure of coal-fired generation at Sherco Units 2 and 1 in 2023 and 2026. As recently as this year, Xcel Energy has also been vocal about transforming its power generation away from coal to cleaner energy sources, thus investing in new wind, solar and natural gas. The announced USD 1 billion wind generation investment is in our view a small positive in that it demonstrates Xcel's ability and willingness to deploy capex for organic growth. It also shows that the company is serious about investing in renewables to reduce the group's relative coal exposure.

Coal has a shrinking U.S. market share for electric power generation and there are as far as we can see two primary reasons for this: relatively cheap natural gas and environmental requirements for coal power. According to Bloomberg, a record amount of coal-fired generating capacity -- about 13.7 gigawatts -- was retired in the U.S. in 2015. Another six gigawatts is scheduled for retirement this year.

Given that Xcel Energy has been excluded from the investment universe of the Norwegian pension fund, and the fact that the U.S. electric power generation market is moving away from coal, we would like to know more about Xcel Energy's plans to reduce the use of coal in the coming years.

1. *Will Xcel Energy be able to reduce its use of coal from about 43 percent of the power production to below 30 percent in the coming few years?*
2. *How long will a reduction take and what is the time line for reductions?*
3. *Can the transition be further accelerated without substantially jeopardizing the profitability of the company?*
4. *What legal and political hurdles are there to making progress away from coal?*
5. *Does Xcel have a dedicated ESG officer to address similar investor questions?*

Best regards

Trygve Andre Meyer

Communications Advisor/ESG

SKAGEN Funds

Subject: RE: Investor Questions regarding Coal

Dear Trygve and Knut,

Listed below are responses to your specific questions. In addition, attached are slides from a recent investor presentation that highlights are environmental plans and actions.

It is important to recognize that fully regulated utilities, like Xcel Energy, earn a return on rate base (or net plant investment). We don't earn money based on which generation assets are running. So, while we don't have revenue or net income by specific asset type (for example: coal assets, nuclear assets, etc.), a reasonable proxy of the revenue or net income for coal generation would be the percentage of rate base. As you can see from the attached chart, coal generation assets represent approximately 13% of net plant investment. Therefore 13% represents a reasonable estimated proxy of the percent of revenue and net income driven by coal generation.

Question: Will Xcel Energy be able to reduce its use of coal from about 43 percent of the power production to below 30 percent in the coming few years?

<u>Response</u>:

As you can see from the attached charts, we have reduced our coal percentage of energy from 56% in 2005 to 43% in 2015. We expect to reduce our coal percentage of our energy mix to 30% by 2030 at the latest based on current plans. However, our coal percentage of energy will likely drop below 30% as we address issues at our Tolk and Harrington plants, which are not currently reflected in our plans.

- **At NSP**, we have proposed to shut down the coal-fired Sherco units 1 & 2 (~1,360 MW in total) during the 2020s. We have also announced plans to add 1,800MW of wind and 1,400MW of solar – while maintaining our carbon-free nuclear generation, and investing in new natural gas combined cycle generation with less than half the emissions of coal generation. Under this pending resource plan, we would realize a

60% reduction in CO_2 emissions from 2005 levels in our Upper Midwest operating system, resulting in our energy mix being 63% carbon-free in 2030.

- **At PSCo**, the Clean Air-Clean Jobs Act program is in the process of retiring or fuel switching ~900 MW of coal-fired generation from 2011 to 2017 and replacing it with NGCC generation. Our upcoming PSCo Resource Plan includes a plan to own a 600MW wind project and add 400 MW of Solar; for the wind portion of this plan, we recently requested PUC approval to construct and own the 600 MW Rush Creek wind farm located near Limon, Colorado – the largest in the state, avoiding about one million tons of CO_2 per year.
- **At SPS,** we have two coal plans, Tolk and Harrington, with ~2,000 MW of generation. At this time, we have not determined our final plans related to these facilities. However, we will likely need to retire some of the units at Tolk and Harrington in the future, depending on the final status of the EPA's Clean Power Plan, issues with water rights and other environmental rules. Please note the charts included in our investor presentations do not reflect any retirements at Tolk and Harrington.

Question: How long will a reduction take and what is the time line for reductions?

Response:

We expect to reduce our coal percentage of our energy mix to 30% by 2030 at the latest based on current plans. However, our coal percentage of energy will likely drop below 30% as we address issues at our Tolk and Harrington plants, which are not currently reflected in our plans.

Question: Can the transition be further accelerated without substantially jeopardizing the profitability of the company?

Response:

Yes. We would need to work with our state commissions to ensure that we get recovery of any costs associated with the acceleration of asset retirements. In addition, we would need to ensure that actions taken would be at a reasonable cost to our customers. Our current projections reflect our current plans at NSP and PSCo. However, we will likely need to retire some of the units at Tolk and Harrington in the future, depending on the final status of the EPA's Clean Power Plan, issues with water rights and other environmental rules. Please note the charts included in our investor presentations do not reflect any retirements at Tolk and Harrington.

Question: What legal and political hurdles are there to making progress away from coal?

Response:

As a regulated utility we are governed by state and federal regulation. Our resource plans and corresponding capital investment plans are developed through a state public utility commission process, and approved by elected or appointed public utility commissioners. As a result, Xcel Energy's plans are highly influenced by state and federal regulation.

Question: Does Xcel have a dedicated ESG officer to address similar investor questions?

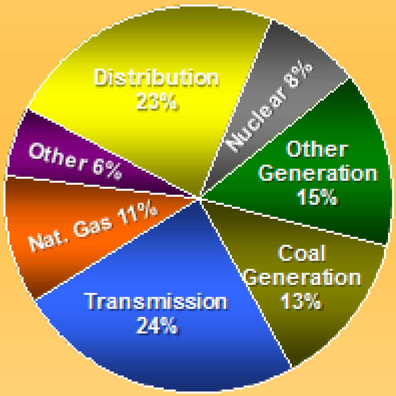
Response:

No we do not have a dedicated ESG officer by title. If you have additional questions, please contact Paul Johnson, Vice President Investor Relations.

In addition, we have a Vice President of Policy and Federal Affairs that oversee our environmental policy and strategy. We can arrange a call with me and our Vice President of Policy and Federal Affairs if that would be helpful.

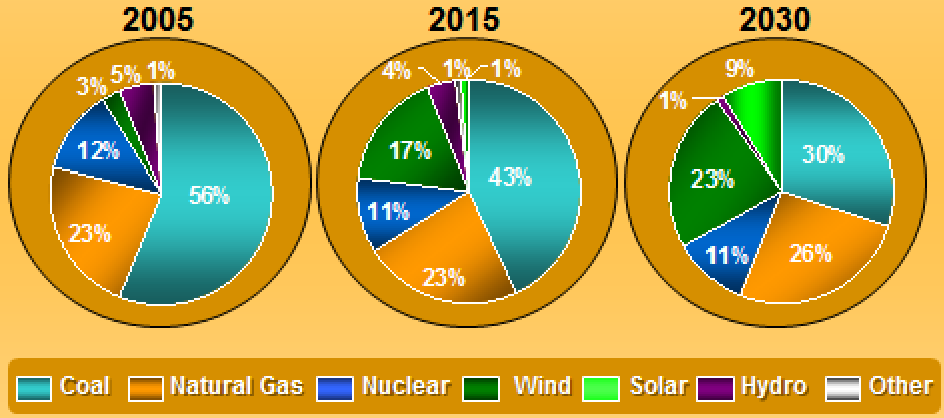
Net Plant by Function

2015 YE Net Plant Balance
~$31 billion

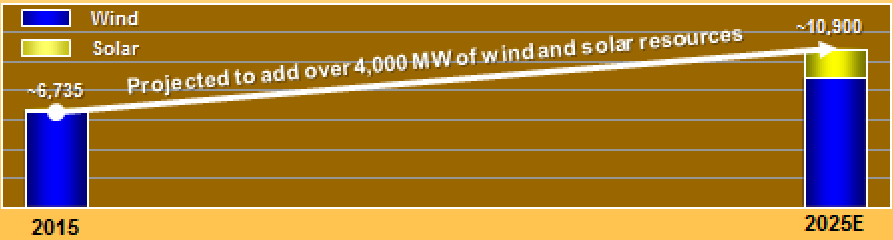


Net plant represents gross plant less accumulated depreciation. The functional allocation of net plant is representative of the functional allocation of rate base.

Proactive Environmental Leadership
Fuel Mix Based on Energy



Renewable Resources Wind and Solar

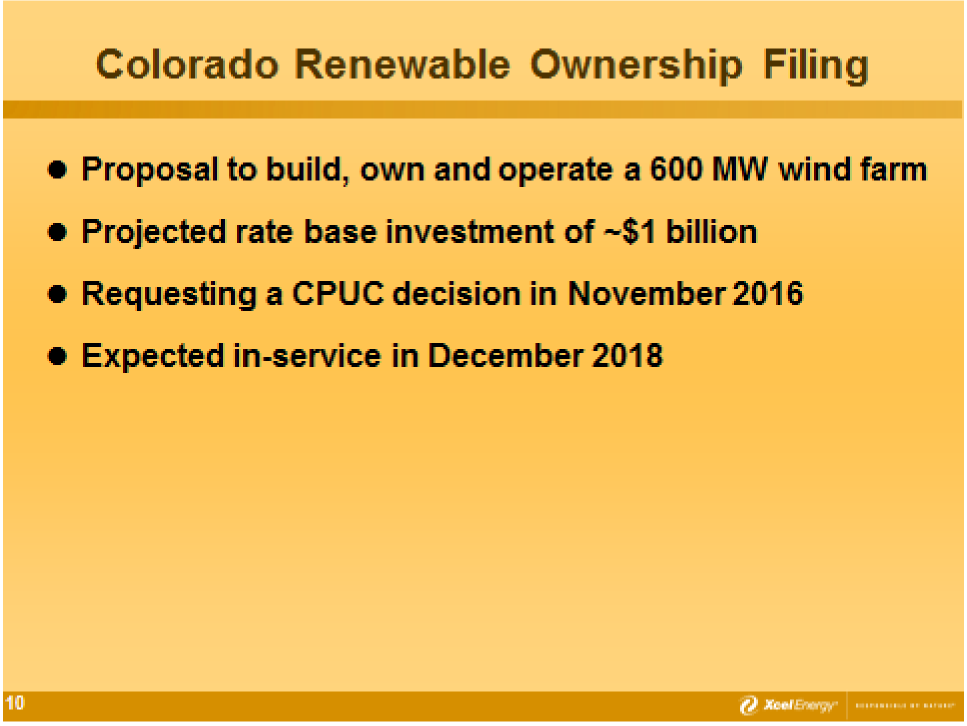


System	Energy Source	2015 Owned (MW)	2015 PPAs (MW)	2016-2025 Additions (MW)
NSP	Wind	652	~1,558	~1,600
	Solar*	0	3	~1,200
PSCo	Wind	0	~2,560	~800
	Solar*	0	137	~500
SPS	Wind	0	~1,775	(~100)
	Solar*	0	50	~100

* Excludes distributed generation rooftop solar

Minnesota Resource Plan

- Reduces carbon emissions by 60% by 2030 from 2005 levels
- Results in 63% of NSP system energy being carbon-free by 2030
- Key provisions:
  - Addition of 800 MW of wind & 400 MW of solar (by 2020)
  - Addition of 1,000 MW of wind & 1,000 MW solar (2020-2030)
  - Retirement of Sherco Unit 2 (2023) & Sherco Unit 1 (2026)
  - New 230 MW of natural gas CT in North Dakota by 2025
  - New 780 MW combined cycle unit at Sherco by 2026
  - Operation of nuclear plants through early 2030s



Subject: FW: Investor Questions regarding Coal

Hei !

Vi har nå fått et raskt og godt svar fra Xcel, se nedenfor (ovenfor i denne pdf'en)

Vi vi understreke at dette er bare første steg i den lengre dialog som vi kommer til å ha med selskapet. Det vil nå gå noe tid hvor vi analyserer svaret og vil deretter følge opp med relevante utspill.

Som du ser av svaret fremhever selskapet at kull utgjør kun 13% av inntektsgrunnlaget. De har redusert kullandelen betydelig senere år – og de har konkrete planer om ytterligere reduksjon i årene som kommer.

Vi håper at dette er tilfredsstillende for Skandiabankens behov for dokumentasjon over hvordan vi arbeider med slike problemstillinger.

Ta gjerne kontakt hvis behov for ytterligere informasjon

Med vennlig hilsen
SKAGEN Fondene
Kjetil Øygarden

Dette notatet viser hvordan vi forventer at forvaltere på plattformen vår skal opptre. Skagen stilte her krav som eier (eierskapsstyring) og vi er også fornøyde med svaret. I dette tilfellet ble fondet ikke rødmerket, ettersom vi var fornøyd med måten Skagen håndterte dette på. Det er vår mening at denne fremgangsmåten er mer effektiv enn om de skulle solgt seg ut.