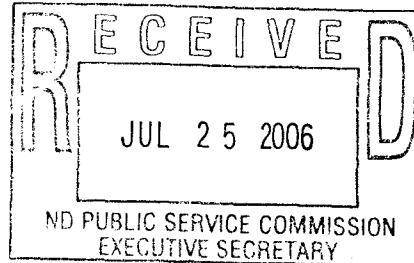




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Telephone (701) 241-8632

July 21, 2006

Illona A. Jeffcoat-Sacco, Executive Secretary
North Dakota Public Service Commission
State Capitol Building, Dept. 408
600 East Boulevard
Bismarck, ND 58505



Re: Northern States Power Company d/b/a Xcel Energy
Case Nos. PU-400-00-195 (PLUS Plan); PU-400-05-265 (2004 Electric Earnings)
PLUS Plan Surcharge to Recover 2004 Deficiency and 2003 Deficiency true-up

Dear Ms. Jeffcoat-Sacco:

Northern States Power Company d/b/a Xcel Energy ("Xcel Energy" or "the Company") is preparing to implement an electric rate surcharge this fall to recover 50% of its 2004 North Dakota jurisdictional electric earnings deficiency, in accordance with the PLUS performance-based regulation plan ("Plan") approved by the Commission (Case No. PU-400-00-195, order dated December 29, 2000). This letter explains to the Commission and Staff how the PLUS Plan addresses earnings outside of the authorized return on equity (ROE) range through surcharges and/or refunds, and explains the method for recovery of the 2004 deficiency (and a small true-up balance of the 2003 deficiency) in September through December of 2006.

2004 Deficiency

In its 2004 earnings report, the Company calculated an unadjusted regulated ROE for its North Dakota retail electric utility operations of 10.80% (before calculation of the Plan's 50/50 earnings sharing). This ROE represented a \$278,000 revenue shortfall from the level needed to achieve the lower limit of the authorized ROE range allowed under the Plan. You will recall that the authorized ROE range is determined annually based on the Company's operational and customer service performance as measured by seven key indicators. In 2004, the authorized ROE range was 11.00% to 13.75%.

The PLUS Plan calls for a 50/50 sharing of any earnings deficiency or surplus relative to the authorized range.¹ After adjusting for the portion of the 2004 revenue deficiency collectible

¹ In addition to the earnings sharing mechanism, the PLUS Plan also allows for base rate changes under certain specific conditions. Xcel Energy's lower than authorized earnings in 2003 in North Dakota, its good operational and service performance, and its low residential rates qualified the Company for a limited base rate increase of \$1.9 million effective August 1, 2005. The increase was capped at 60% of inflation, or 1.62%. In addition to being less than inflation, the increase was well below the 3.02% average rate

from customers (50% of \$278,000, or an additional \$139,000 of revenue), as specified in the Plan, Xcel Energy reported a final 2004 electric utility ROE in North Dakota of 10.90%. While reflecting the additional surcharge revenues in its reported 2004 earnings report to the Commission, Xcel Energy indicated the actual *cash* recovery (through rates) would be deferred to 2006, and only then if the amount was not fully offset by higher than allowed earnings in 2005, as provided by the Plan terms.

As the Commission is aware, the Company's reported 2005 electric utility return on equity of 12.46% was above the authorized range minimum of 11.00%, so there was no 2005 offset of the 2004 deficiency balance of \$139,000 due from customers. The Company intends to recover this amount through a surcharge to be effective during the months of September, October, November, and December 2006 (similar to what was done for the 2003 deficiency in 2005). The other 50% of the total 2004 revenue deficiency will remain unrecovered, as provided by the Plan.

Recovery Plan

To effectuate the recovery authorized by the Plan, the Company intends to use the same approach that was used in 2005 to recover 50% of the 2003 revenue deficiency. The \$139,000 surcharge amount from the 2004 deficiency will be divided evenly into the four months from September through December and the monthly amount used to calculate a per kWh factor (based on forecasted sales) for each month that will be added to the Company's Fuel Clause Adjustment (FCA). At the end of December, any material balance remaining will be collected in the February 2007 FCA via a "true-up" factor.

In addition to the 2004 deficiency surcharge, there is a balance of \$37,163 remaining to recover from the \$954,000 2003 deficiency surcharge implemented last year. This balance remains because of a considerably warmer than normal December 2005, which resulted in lower sales and an under-recovery of the surcharge (see Attachment A). Staff agreed in January that rather than attempt to true-up this amount right away, it would make sense to fold it into the much smaller 2004 deficiency charge yet to be implemented in late 2006.

Attachment B shows the approximate per kWh surcharge factor that would be in effect, and Attachment C indicates the estimated bill impact of the surcharge for a typical residential electric customer is about 21¢ per month for the four month period from September to December 2006.

If required, the Company again respectfully requests waiver of the Company's FCA tariff and the Commission's rules regarding Automatic Adjustment Clauses (69-09-02-39) to provide recovery through the FCA mechanism. The Commission may recall that last year the use of the FCA was determined to be the least burdensome method to administer the PLUS surcharge and it has the benefit of moderating the bill impact by spreading it over

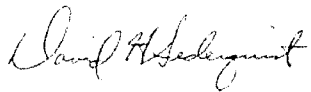
change among the Plan's regional utility comparison group (see Page 9 of the 2004 Regulatory Report of Electric Utility Operations filed by Xcel Energy on May 2, 2005).

multiple months. In addition, the FCA provides for the application of a simple true-up mechanism that ensures the appropriate costs are recovered regardless of changes in sales.

The Company respectfully requests that the Commission promptly acknowledge the accuracy of the surcharge and its consistency with the terms of the PLUS Plan in order for the recovery mechanism to be effective with the September 2006 FCA billing rates.

Please contact me (701-241-8632) if you have any questions regarding the proposed PLUS Plan deficiency recovery.

Sincerely,

A handwritten signature in cursive script, appearing to read "David H. Sederquist".

David H. Sederquist
Sr. Regulatory/Financial Consultant
Northern States Power Co. d/b/a Xcel Energy

cc: Kent Larson, Vice-President, Customer and Community Relations
James P. Johnson, Assistant General Counsel

Northern States Power Co. d/b/a Xcel Energy
Electric Utility - State of North Dakota
2005 PLUS Plan Surcharge Results (from 2003 earnings)

Attachment A

<u>PLUS Surcharge Factor Derivation</u>	<u>Sept-2005</u> (A)	<u>Oct-2005</u> (B)	<u>Nov-2005</u> (C)	<u>Dec-2005</u> (D)	Four Month <u>Total</u> (E)
Surcharge Amount	\$238,500	\$238,500	\$238,500	\$238,500	\$954,000
Forecasted ND Electric Sales (Mwh) <i>(February 2005 Forecast)</i>	157,108	169,049	178,898	205,677	710,731
PLUS Surcharge Factor in FCA	<u>\$0.00152</u>	<u>\$0.00141</u>	<u>\$0.00133</u>	<u>\$0.00116</u>	
Actual ND Electric Sales (Mwh)	176,149	166,647	159,390	174,250	676,436
PLUS Surcharge Amount collected	\$267,746	\$234,972	\$211,989	\$202,130	\$916,837
Over (+)/Under (-) Collected Amount	\$29,246	(\$3,528)	(\$26,511)	(\$36,370)	(\$37,163)

**Northern States Power Co. d/b/a Xcel Energy
 Electric Utility - State of North Dakota
 Estimated 2006 PLUS Plan Surcharge Factors**

Attachment B

<u>PLUS Surcharge Factor Derivation</u>	<u>Sept-2006</u> (A)	<u>Oct-2006</u> (B)	<u>Nov-2006</u> (C)	<u>Dec-2006</u> (D)	<u>Four Month</u> <u>Total</u> (E)
Surcharge Amount	\$44,041	\$44,041	\$44,041	\$44,041	\$176,163
Forecasted ND Electric Sales (Mwh) (2006 Budget)	159,098	170,050	179,845	207,770	716,763
PLUS Surcharge Factor in FCA*	<u>\$0.00028</u>	<u>\$0.00026</u>	<u>\$0.00024</u>	<u>\$0.00021</u>	
Actual ND Electric Sales (Mwh)					-
PLUS Surcharge Amount collected	\$0	\$0	\$0	\$0	\$0
Over (+)/Under (-) Collected Amount					\$0

* These factors are preliminary and intended to show the approximate factor to be used. The calculations are subject to change as a result of updated sales forecasts for 2006

Northern States Power Co. d/b/a Xcel Energy
Electric Utility - State of North Dakota
2006 PLUS Plan Revenue Sharing Surcharge (from 2004 earnings)
Estimated Average Bill Impact by Class

Attachment C

Total 2006 Surcharge

2003 deficiency balance	\$37,163
2004 deficiency	<u>\$139,000</u>
Total to collect	\$176,163

Estimated Surcharge by Customer Class

<u>Customer Class</u>	<u>2006 Budget Mwh Sales</u>	<u>% of Sales</u>	<u>Est. Class Surcharge</u>	<u>2006 Budget Revenues</u>	<u>Surcharge as % of Revenue</u>
Residential	734,741	35%	\$61,662	\$55,186,000	0.11%
Small Commercial	1,005,819	48%	\$84,412	\$65,206,000	0.13%
Large Commercial	334,471	16%	\$28,070	\$17,340,000	0.16%
Public Str/Hiway	14,483	1%	\$1,215	\$1,322,000	0.09%
Public Authorities	<u>9,562</u>	<u>0%</u>	<u>\$803</u>	<u>\$775,000</u>	<u>0.10%</u>
Total Retail	2,099,076	100%	\$176,163	\$139,829,000	0.13%

Typical Bill Impacts

<u>Customer Class</u>	<u>2006 YE Customers</u>	<u>Est. Monthly Bill Impact*</u>
Residential	74,837	\$0.21
Small Commercial	11,980	\$1.76
Large Commercial	29	\$241.98
Public Str/Hiway	87	\$3.49
Public Authorities	<u>195</u>	<u>\$1.03</u>
Total Retail	87,128	\$0.51

* Approximate monthly impact of surcharge from September - December