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February 5, 2007

VIA E-MAIL & REGULAR U.S. MAIL

President Susan E. Wefald
Commissioner Tony Clark
Commissioner Kevin Cramer
North Dakota Public Service Commission
State Capitol Building, Dept. 408
Bismarck, ND 58505-0480

Re: *Application of Northern States Power Company, a Minnesota corporation and wholly owned subsidiary of Xcel Energy Inc. for Authority to Increase Rates for Natural Gas Service in North Dakota*
Case No. PU-06-525

Dear Commissioners:

This letter is written on behalf of Northern States Power Company, a Minnesota corporation and wholly owned subsidiary of Xcel Energy Inc. ("Xcel Energy" or the "Company") to convey a resolution offered with regard to setting interim rates in the above referenced proceeding and to urge its acceptance.

On January 24, 2007, the North Dakota Public Service Commission (the "Commission") conducted an informal hearing related to setting interim rates in this proceeding. At the hearing, Xcel Energy and Advocacy Staff presented different recommendations with regard to three issues related to the determination of interim rates: (1) the appropriate return on equity; (2) the inclusion of the unamortized balance of manufactured gas plant (MGP) remediation costs in rate base; and (3) the inclusion of $363,000 in additional expenses resulting from a change in cost allocation percentages between our natural gas and electric operations. At that time, Advocacy Staff and the Company presented their arguments as to why their recommendations related to those adjustments were reasonable and consistent with state law.

On January 29, 2007, Xcel Energy filed with the Commission a letter providing further analysis on the legal and policy concerns raised by the use of data from a black box settlement reached in Case No. PU-400-04-578 to set interim rates in this proceeding.

Subsequently, Xcel Energy has had further discussions with Advocacy Staff regarding these contested issues. In the interest of reaching a reasonable resolution of the issues, a compromise has been reached that both Advocacy Staff and the Company endorse. The compromise would use the most recently authorized Commission return on equity of 11.5% from Case No. PU-400-00-521 as the appropriate return for setting interim rates. Further, costs associated with MGP remediation, and additional expenses resulting from a change in cost allocation methodology, would not be included for the purposes of setting interim rates. The result of this compromise is that the requested interim increase of $2,551,000 would be reduced to $2,158,000. We believe that this outcome provides a reasonable compromise and is not inconsistent with the language and spirit of N. D. Century Code, Section 49-05-06.

Both Advocacy Staff and Xcel Energy also recognize that the Commission's decision with regard to the inclusion or exclusion of particular costs for setting interim rates does not have any precedental value on how these issues are resolved for final rates.

Please contact me with any questions, or if I can be of further assistance.

Sincerely

Megan J. Hertzler
Assistant General Counsel

cc: Illona A. Jeffcoat-Sacco
Michael Diller