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PUBLIC SERVICE COMMISSION

June 5, 2009

Darrell Nitschke, Executive Director
North Dakota Public Service Commission
State Capitol Building, Dept 408
600 East Boulevard
Bismarck, ND 59505-0480

- VIA E-MAIL & U.S. MAIL -

RE: APPLICATION FOR AN ADVANCED DETERMINATION OF PRUDENCE FOR THE 201 MW NOBLES WIND PROJECT, CASE NO. PU-08-907

APPLICATION FOR AN ADVANCED DETERMINATION OF PRUDENCE FOR THE 150 MW MERRICOURT WIND PROJECT, CASE NO. PU-08-908

Dear Mr. Nitschke:

Northern States Power Company, a Minnesota corporation ("Xcel Energy" or the "Company"), is pleased to offer this response to the request for additional information made by the Commissioners during the informal hearing on these dockets on May 18, 2009.

During the informal hearing, the Commissioners asked if the Company had analyzed the incremental impact on our Nobles and Merricourt wind projects of the recently passed American Recovery and Reinvestment Act of 2009 ("ARRA") as well as 2009 North Dakota legislation that extended the terms of the state's wind energy incentives.

There are a number of sections to the ARRA that apply to wind projects:

1. Extension of the Production Tax Credit ("PTC") for projects completed by the end of 2012,
2. The availability of a 30% Investment Tax Credit ("ITC") in lieu of the PTC for projects completed by the end of 2012,
3. A grant equal to 30% of the costs of qualified projects that are either placed into service in 2009 or 2010 or begin construction in 2009 or 2010 and complete construction by the end of 2012,
4. Bonus depreciation of 50% for projects placed in service prior to 2010, and

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5. A 30% manufacturer's tax credit for investment in facilities to be used for manufacturing of renewable technologies.

In our original modeling last year, we included the effects of the PTC as we assumed that the PTC would be extended such that it applied to these projects. At that time, we did not consider the effects of the ITC or the grant, as these options were not available. We have since looked at the effects of the ITC on these projects and it appears that on a present value basis, the benefits provided by the PTC are more favorable to ratepayers.

The 30% grant, whereby funds would be received within 60 days of the start of plant operation, or receipt of application for such funds (whichever is later), could be applied to the Nobles project, but since construction of the Merricourt project won't commence until after 2010, it does not qualify for the grant. Furthermore, grant monies would be in lieu of either the PTC or ITC as described above. Again, as the grant portion of the ARRA is currently written, we have determined that the PTC provides the greater benefits to customers. There is the potential that the legislative rules for normalization of the grant option may be changed, enabling us to pass on benefits of the grant to ratepayers such that the benefit equals the PTC.

The bonus depreciation provision is an extension of tax law that was in place for 2008. This is independent of any of the tax credits or grants described above. The ARRA extends this provision to projects completed in 2009; therefore neither the Nobles nor Merricourt project would qualify for this bonus depreciation.

With respect to the 30% manufacturer's tax credit for investment in manufacturing renewable technologies, this will not directly apply to the Company. This credit only applies to producers of wind turbines and other renewable energy equipment. However, the benefits of this program may provide for lower costs as we look forward to future projects. Because we have already contracted for the Nobles and Merricourt projects, we will not see changes in these costs.

There were three sections of the North Dakota Century Code related to wind energy tax incentives that were extended in the 2009 legislative session:

1. A limit on the property taxable value of wind turbines to 1.5 percent of the assessed value,
2. An income tax credit on renewable energy installations, and
3. An exemption of the sales and use tax for materials used in the construction or expansion of wind projects.

Of these three, only two of the changes would affect the Merricourt project. The income tax credit and the property tax value limit are available to the Company under a turnkey contract but not the sales tax exemption that would flow to the builder of the project. The modeling submitted in this filing for Merricourt already assumed an extension of the property tax value limitation on wind turbines so no additional analysis is required. None of these three North Dakota tax incentives would affect the Nobles project.

We did not model the North Dakota income tax credit in our original Merricourt analysis as we did not have reasonable assurance that the incentive would be extended in 2009. While our actual North Dakota income tax liability for the years the project is in service are unknown at this time, we reviewed the potential effects of this provision by assuming an annual $500,000 tax liability for our combined electric and natural gas operations in North Dakota. The result was that we would see an approximate one dollar per MWh decrease in project costs over the life of the project.

I hope this information addressed the Commission's issues raised on May 18. Please contact me if you have further questions or need more information.

SINCERELY,

David H Sederquist

DAVID H. SEDERQUIST
SR. CONSULTANT, REGULATION & FINANCE