



414 Nicollet Mall
Minneapolis, MN 55401

OCT 16 2009

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PUBLIC SERVICE COMMISSION

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

Darrell Nitschke
Director of Administration and Executive Secretary
North Dakota Public Service Commission
State Capitol Building, Dept. 408
600 East Boulevard
Bismarck, ND 58505-0480

**Re: THE RENEWABLE ENERGY CREDITS MANAGEMENT PLAN OF
NORTHERN STATES POWER COMPANY, A MINNESOTA CORPORATION**

Dear Mr. Nitschke:

On June 29, 2009 Northern States Power Company, a Minnesota corporation operating in North Dakota ("Xcel Energy" or the "Company") provided the North Dakota Public Service Commission ("Commission") a renewable and recycled energy compliance report. In that report we provided statistics on the amount of renewable energy we produced or purchased in 2008 and our status relative to North Dakota's renewable energy objective. After making the adjustments prescribed in the North Dakota statute, we calculated that just over ten percent of the electricity we provided in North Dakota in 2008 was generated using renewable resources.

We also took the opportunity in the June 29 report to share our efforts to establish a management plan for the Renewable Energy Credits ("RECs") associated with the renewable energy we produce and purchase. The purpose of this correspondence is to provide a progress report. We intend to contact staff in the coming weeks to seek feedback and answer questions as we finish the development of our plan and prepare the necessary regulatory filings to implement it by year end.

A. Background

Xcel Energy plans and operates, as an integrated whole, the generating and transmission resources of Northern States Power Company-Minnesota and Northern States Power Company-Wisconsin. These two operating companies serve customers across the five states of our upper Midwest service territory. New plants are planned to provide cost-effective electrical service to all customers system-wide, and Xcel

Energy's fleet of plants are operated in concert to the benefit of all we serve. In turn, the cost of operating the generation and transmission system is borne by all customers across the five state system in proportion to use. For example, North Dakota customers use approximately 5% of the energy we provide and thus bear approximately 5% of the system costs to produce and transport power.

Consistent with those principals, we plan and distribute costs for renewables-based generation additions on a system basis. Today we operate or purchase energy from approximately 1,900 megawatts of renewable generation. To meet the combined renewable energy policies of the five states we serve, we anticipate we will need to add approximately 2,400 megawatts of renewable generating capacity over the next two decades.

RECs are created for each megawatt hour of energy generated by a renewable resource and can be used to demonstrate compliance with state renewable policy requirements. RECs created in the NSP footprint are registered and accounted for in a regional tracking system called M-RETS. Xcel Energy treats RECs as an indivisible part of the energy they represent until they are used to demonstrate compliance, transferred to wholesale customers, retired for voluntary green pricing programs or sold. Since North Dakota customers pay for approximately 5% of the renewable energy we produce or purchase, we will transfer approximately 5% of the RECs created in a North Dakota jurisdictional sub-account in M-RETS. Based on 2008 data, 283,951 MWh of renewable energy was allocated to North Dakota. After removing the renewable energy from the contracts that are silent on REC ownership, 190,577 RECs will be transferred to the North Dakota sub-account in M-RETS.

We are developing a comprehensive REC management plan to establish procedures to both ensure adequate RECs will be available to demonstrate compliance and to manage "excess" RECs to the benefit of customers.

B. Progress Report

1. Resource Acquisition

Over the last quarter our attention has been focused on a review and analysis of our overall renewable energy compliance requirements.

With the downturn in the economy, forecasts of electricity consumption have declined dramatically, at least in the near term. However, over the longer term, forecasters project electricity consumption will rebound to levels similar to pre-recession forecasts. Since renewable energy standards and objectives are expressed as percentages of consumption, the amount of new renewable generation we must add to the system is very sensitive to energy forecasts. While our long-term goals appear to remain about

the same as previously estimated, there is less certainty about requirements in the next 5 years.

Through our recently concluded resource planning process, we have identified that we will need to add between 100 to 200 MW of renewable generation per year over the 15 year planning horizon. Some near term adjustments may be warranted to this plan but overall we do not foresee a change in our overall course at this time.

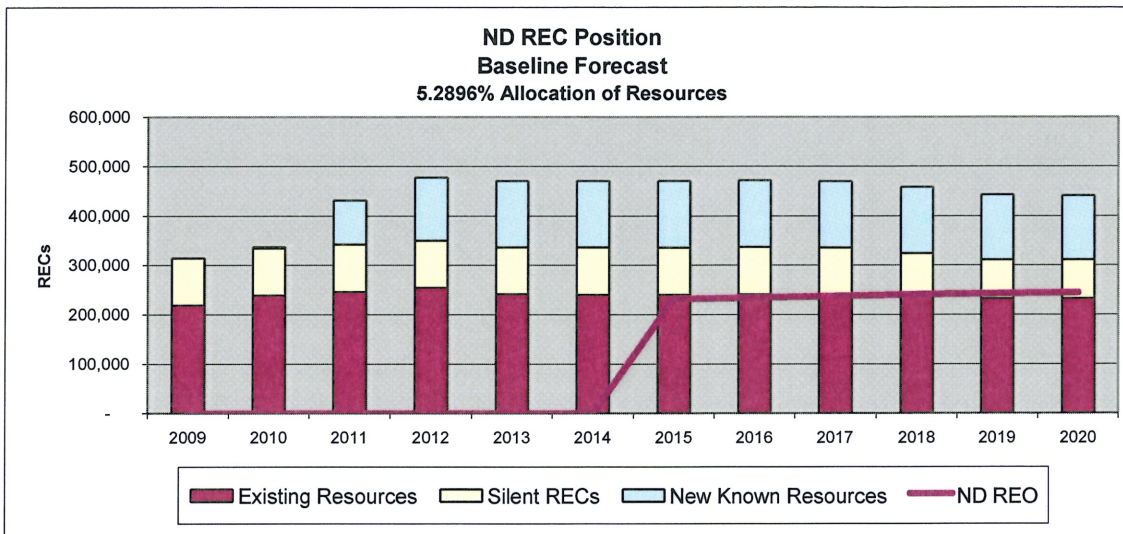
2. *Banking*

We have also examined how we might establish and maintain an adequate reserve of RECS to ensure our ability to comply with states' requirements year by year. Since renewable standards are based on a percentage of consumption there can be some variability in actual obligations from year to year. On the generation side there is always some risk that the development of a new resource might be delayed due to unforeseen circumstances. A large portion of our renewable portfolio is comprised of wind generation and we anticipate wind power to increase substantially. Wind power is an intermittent resource that can vary substantially over time. Thus, annual production will vary.

Minnesota and Wisconsin law recognize these potential uncertainties and allow RECs to be "banked" or saved for compliance tracking purposes for up to four years. By banking some of the RECs in excess of those needed for compliance in a given year, an unexpected shortfall can be prevented in subsequent years.

As we gain more experience with compliance, and particularly as the compliance percentages increase over the next decade, we propose to maintain a REC bank that contains at least half of our annual compliance requirement in all jurisdictions. This margin will allow us flexibility to comply with renewables obligations in the event that our generation and planning for renewable resources is disrupted. As we gain more experience with RES/REO compliance and REC markets, we may adjust strategies to help maximize the value of RECs for our customers.

In our compliance report we portrayed North Dakota's renewable energy objective as shown below.



For the years prior to the 2015 timeframe, we are assuming no RECs need to be retired to demonstrate compliance. If that is the case, all 190,577 RECs in the North Dakota jurisdictional account can be made available for sale. If the Commission desires to have compliance recognized in a different manner than what is portrayed, we can adjust our plan.

In our description of REC management issues in our compliance report we raised the possibility that transfers of RECs from one jurisdictional account to another may be utilized to minimize the overall costs of renewable energy to all customers on the integrated NSP System. Given the banking provisions of the Minnesota and Wisconsin RES, we have confirmed that it will not be necessary to make transfers during the next several years to address state compliance requirements.

During the next few weeks we will be turning our attention to finishing our evaluation of the remaining areas of the plan. Now that we have set some general parameters that will establish how many RECS are allocated to each jurisdiction and how many need not be banked for compliance, we are developing a plan for their sale. We are investigating how robust the REC market is and how we might stage or schedule sales to maximize the value obtained. We are also looking into whether jurisdictional REC accounts can be managed independently or whether sales should be made from pooled RECs and revenue distributed across jurisdictional accounts proportionately.

Finally we are developing two models or mechanisms for returning the value of RECs back to customers. The first is relatively straight-forward. REC revenue can be returned to customers through the Fuel Cost Rider (“FCR”). We are examining the accounting and tariff changes necessary to implement that approach. Alternatively we are exploring the idea of deferring revenue and using it to reduce the cost of a subsequent wind project investment.

C. Consultation

Before we complete our planning we would like to consult with Commission Staff on the elements we discussed in our June 29 compliance filing as well those contained in this letter. We would like to arrange an appointment in early November to review our work, answer any questions and obtain feedback. We look forward to working with the Commission Staff to complete this important effort to bring additional value to our customers.

SINCERELY,

/s/

JAMES R. ALDERS
DIRECTOR, REGULATORY ADMINISTRATION

C: Laura McCarten
Dave Sederquist