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EL 03-020

DOCKET NO.

In the Matter of IN THE MATTER OF THE FILING BY XCEL ENERGY FOR APPROVAL OF THE INCLUSION OF FINANCIAL INCENTIVES IN ITS FUEL CLAUSE

Public Utilities Commission of the State of South Dakota

DATE		MEMORANDA
6/3	03	Filed and Docketed;
6/5	03	Weekly Filings;
6/27	03	Commodity Risk Management Policy;
7/14	03	Order Approving Extension;
7/14	03	Docket Closed.

Xcel Energy[SM]

EL 03-020

RECEIVED

JUN 03 2003

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

Jim Wilcox, Manager,
Government & Regulatory Affairs
500 West Russell Street
P.O. Box 988
Sioux Falls, SD 57101-0988
Telephone (605) 339-8350 fax 612/573-9083
internet - james.c.wilcox@xcelenergy.com

May 29, 2003

Ms. Pam Bonrud, Executive Director
South Dakota Public Utilities Commission
State Capitol Building
500 East Capitol Avenue
Pierre, South Dakota 57501-5070

Dear Ms. Bonrud: **CONFIDENTIAL TREATMENT REQUESTED**

Enclosed for filing please find Xcel Energy's activity report and request for renewal required in the order approving extension regarding Docket EL99-021 – In the matter of the application by Northern States Power Company for approval of inclusion of financial incentives in its fuel clause.

Xcel Energy respectfully requests confidential treatment of the "NON-PUBLIC DOCUMENT" enclosed as specified in ARSD 20:10:01:41 - Requests for confidential treatment of information. All pages, which include such proprietary information, have been marked "Confidential." Following are Xcel Energy's responses to the 5 points cited in this administrative rule:

(1) An identification of the document and the general subject matter of the materials or the portions of the document for which confidentiality is being requested;

Xcel Energy seeks confidential treatment of trade secret data presented in this activity report and request for renewal.

(2) The length of time for which confidentiality is being requested and a request for handling at the end of that time;

Xcel Energy requests these documents be maintained confidential through the lifetime of the EL99-021 Docket. Xcel requests that all confidential information provided by Xcel in this docket be returned to Xcel following resolution of this docket.

(3) The name, addresses, and phone number of a person to be contacted regarding the confidentiality request;

Jim Wilcox
PO Box 988
Sioux Falls, SD 57101-0988
605 / 339-8350

(4) The statutory or common law grounds and any administrative rules under which confidentiality is requested.

The material is proprietary information, the disclosure of which would result in material damage to the company's financial or competitive position. ARSD 20:10:01:42. The filing contains trade secret data of which disclosure might have an adverse impact on Xcel Energy and its ratepayers.

(5) The factual basis that qualifies the information for confidentiality under the authority cited.

The material reveals trade secret data.

If anyone has any questions, please call me at 339-8350

Sincerely,

JCWilcox

Jim Wilcox

c. Kent Larson
Judy Poferl
Al Krug
John Chow

CONFIDENTIAL
NON-PUBLIC DOCUMENT
CONTAINS CONFIDENTIAL DATA

RECEIVED
JUN 03 2003
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

STATE OF SOUTH DAKOTA
BEFORE THE
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

Robert Sahr	Chair
Gary Hanson	Commissioner
James Burg	Commissioner

IN THE MATTER OF THE APPLICATION BY NORTHERN STATES POWER COMPANY FOR APPROVAL OF THE INCLUSION OF FINANCIAL INCENTIVES IN ITS FUEL CLAUSE

DOCKET NO. EL99-021

ACTIVITY REPORT AND REQUEST FOR RENEWAL

In Docket No. EL99-021, the Commission approved the Northern States Power Company d/b/a Xcel Energy's ("Xcel Energy" or "Company") request to flow the effects of various financial instruments through the fuel clause. In its Order, the Commission approved the petition and accompanying tariff change. The Commission also required Xcel Energy to submit biannual reports containing the following information; a list of each hedging instrument entered into, the total Mwh contracted for in each instrument, and the net gain or loss including transaction costs for each instrument in comparison to Xcel Energy's incremental energy cost for a selected study period.

Overview

Since our February 2002 activity report in this docket, Xcel Energy's use of financial instruments [CONFIDENTIAL INFORMATION BEGINS *has been limited. As has been noted in previous filings, this is due primarily to the lack of liquidity in the financial markets for electricity.* CONFIDENTIAL INFORMATION ENDS] The past year has seen the exit from electric wholesale market of numerous counter-parties, thus further exacerbating a trend towards reduced liquidity. Thus, [CONFIDENTIAL INFORMATION BEGINS *use of financial instruments has not occurred as frequently as Xcel Energy had hoped for when we made our initial and subsequent filings.* CONFIDENTIAL INFORMATION ENDS] Nonetheless, it remains a valuable tool, and as the wholesale market for electricity matures there may be greater willingness of others to participate in exchanges. The Company also notes that [CONFIDENTIAL INFORMATION BEGINS *it did not use any other type of financial instrument other than natural gas call options to hedge the price risk associated with electric generation during the summer of 2002.* CONFIDENTIAL INFORMATION ENDS]

Discussion of Trading Activity

[CONFIDENTIAL INFORMATION BEGINS *During the summer of 2002, Xcel Energy anticipated generating significant volumes of electricity through operation of our natural gas fired generating facilities. Thus, the Company believed it was important to provide some protection against potential spikes in the cost of natural gas and the resulting cost of generating electricity, for the relevant summer months. In the summer of 2001, Xcel Energy chose to lock-in the cost of natural gas by purchasing gas futures. While this strategy was effective, Xcel Energy chose an alternative strategy for the summer of 2002. Xcel Energy purchased call options for natural gas. This allowed Xcel Energy to ensure that the cost of natural gas to ratepayers would not exceed a certain level (the call option strike price), while at the same time allowing ratepayers to benefit from downward movements in the price of natural gas. As shown in Attachment A, Xcel Energy purchased natural gas call options for July and August in sufficient quantities to hedge the cost of generation of 60,000 MWhs in each month. These purchases allowed Xcel Energy to ensure that the cost of generation for these 60,000 MWHs would not exceed $32.34/MWh in July and August. At the same time, Xcel Energy was positioned to take advantage of natural gas price decreases. Ultimately, natural gas prices for July and August of 2002 settled below the strike price of the purchased calls. Therefore, the* *call options were not exercised. This resulted in a debit to the SD fuel clause of $7,908 for each month.* CONFIDENTIAL INFORMATION ENDS]

Summary of Trading Activity

[CONFIDENTIAL INFORMATION BEGINS *As discussed above, for the reporting period, Xcel Energy's use of financial instruments were limited to the purchase of natural gas call options. These call options reduced potential upward volatility in the cost of generating electricity with natural gas. The net impact on the SD fuel clause was a debit of $15,815.* CONFIDENTIAL INFORMATION ENDS]

CONCLUSIONS

Xcel Energy continues to believe that an important component of least cost procurement on behalf of ratepayers includes mitigating price risk for our customers. To the extent possible, Xcel Energy proposes to continue to use financial instruments to achieve this goal. [CONFIDENTIAL INFORMATION BEGINS *The Company proposes to continue to use bilateral forward agreements for physical energy as its primary tool (in tandem with whatever trading it can prudently accomplish through use of financial instruments) to manage price risk.* CONFIDENTIAL INFORMATION ENDS]

Although Xcel Energy did provide an annual report covering the 2001 trading year, the Company neglected to obtain an order approving this program for 2002. The Company respectfully requests approval for this program for 2002.

Xcel Energy also respectfully requests Commission approval for the calendar year 2003 - 12 month test period in order to continue this program.

The Company pledges to adhere to the conditions approved by the Commission on April 24, 2001. Because this activity primarily occurs in the Summer season, the reporting frequency seems to lend itself to more appropriately be on an annual basis. Xcel Energy respectfully requests that condition 1 of exhibit B of the April 24, 2001 order be amended to provide for annual reporting.

Please contact me at 339-8350 with any questions.

Respectfully submitted,

JCWilcox

JIM WILCOX
MANAGER, REGULATORY AFFAIRS

Dated: May 29, 2003

ɹorthern States Power Company d/b/a/ Xcel Energy
ɪtate of South Dakota
Ↄompliance Report on Financial Instruments

NON-PUBLIC DOCUMENT
CONTAINS TRADE SECRET DATA
CONFIDENTIAL

Rate Payer Benefit Analysis of Natural Gas Option Contracts for Electric Generation

[TRADE SECRET DATA BEGINS...

Accrual Month	Trade Date	Number of Contracts	MWh's Hedged	MW Equivalent Forecasted Price	MW Equivalent Mkt. Price	Forecasted vs. Futures Eqv. Difference	Gain (Loss)	Transaction Cost	Total System Gain (Loss)	South Dakota Jurisdiction Gain (Loss)
July-2002	05/21/2002	74 Contracts @ $3.45	60,000	$32.34	$57.34	$24.996	$1,499,775	$0	$1,499,775	$61,641
August-2002	05/21/2002	74 Contracts @ $3.45	60,000	$32.34	$52.06	$19.716	$1,182,975	$0	$1,182,975	$48,620
ʇotal Projected Savings									$2,682,750	$110,261

...TRADE SECRET DATA ENDS]

Fuel Clause Impact Analysis of Natural Gas Option Contracts for Electric Generation

[TRADE SECRET DATA BEGINS...

Accrual Month	Trade Date	Number of Contracts	MWh's Hedged	Option Cost	Strike Price	Settlement Price	Intrinsic In-The-Money Value	Transaction Cost	Total System Gain (Loss)	South Dakota Jurisdiction Gain (Loss)
July-2002	05/21/2002	74 Contracts @ $0.26	60,000	$192,400	$3.450	$3.449	$0	$0	($192,400)	($7,908)
August-2002	05/21/2002	74 Contracts @ $0.26	60,000	$192,400	$3.450	$2.902	$0	$0	($192,400)	($7,908)
ʇotal Actual Savings									($384,800)	($15,815)

...TRADE SECRET DATA ENDS]

South Dakota Public Utilities Commission

WEEKLY FILINGS

For the Period of May 29, 2003 through June 4, 2003

If you need a complete copy of a filing faxed, overnight expressed, or mailed to you, please contact Delaine Kolbo within five business days of this report. Phone: 605-773-3705

ELECTRIC

EL03-019 In the Matter of the Filing by Montana-Dakota Utilities Co. for Approval of Tariff Revisions.

Application by Montana-Dakota Utilities Co. for approval to update Occasional Power Purchase Non-Time Differentiated Rate 95, Short-Term Power Purchase Time Differentiated Rate 96 and Long-Term Power Purchase Time Differentiated Rate 97. Pursuant to Commission Order and tariffed terms and conditions, these rates are reviewed annually and revised when necessary. The rates proposed were developed using the same methodology as was used for the rates currently on file.

Staff Analyst: Dave Jacobson
Staff Attorney: Karen Cremer
Date Docketed: 06/03/03
Intervention Deadline: 06/20/03

EL03-020 In the Matter of the Filing by Xcel Energy for Approval of the Inclusion of Financial Incentives in its Fuel Clause.

Application by Xcel Energy (Xcel) for approval to continue flowing the costs and effects of its hedging transactions for years 2002 and 2003 through its fuel clause pursuant to the terms and conditions ordered in Docket EL99-021. The Commission's decision in Docket EL99-021 approved Xcel's proposal to flow the costs and effects of hedging transactions through Xcel's fuel clause with conditions, including recurring annual approval and biannual reporting requirements. Xcel neglected to obtain approval to continue inclusion of its hedging activity in its fuel clause for the year 2002 and now requests that approval and also approval for 2003. Xcel is also requesting that the reporting requirement be revised to now be annual instead of biannual.

Staff Analyst: Dave Jacobson
Staff Attorney: Kelly Frazier
Date Docketed: 06/03/03
Intervention Deadline: 06/20/03

TELECOMMUNICATIONS

TC03-090 In the Matter of the Filing for Approval of an Amendment to an Interconnection Agreement between Qwest Corporation and Midcontinent Communications.

On May 30, 2003, the Commission received a Filing of End Office with Local Tandem

Functionality Amendment to Agreement between Qwest Corporation (Qwest) and Midcontinent Communications (f/k/a Midco Communications "Midco"). According to the parties, the Amendment is an amendment to the negotiated agreement reached between the parties which was approved by the Commission effective May 5, 1999, in Docket TC99-023. The amendment is made in order to add End Office with Local Tandem Functionality language to the Agreement, stating that to the extent Qwest is using a specific end office to deliver limited tandem switching functionality to itself, a wireless service provider, another CLEC, or another ILEC, it will arrange the same trunking for the CLEC. Any party wishing to comment on the agreement may do so by filing written comments with the Commission and the parties to the agreement no later than June 19, 2003. Parties to the agreement may file written responses to the comments no later than twenty days after the service of the initial comments.

Staff Attorney: Kelly Frazier
Date Docketed: 05/30/03
Initial Comments Due: 06/19/03

Xcel Energy

Jim Wilcox, Manager,
Government & Regulatory Affairs
500 West Russell Street
P.O. Box 988
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Telephone (605) 339-8350 fax 612/573-9083
internet - james.c.wilcox@xcelenergy.com

June 27, 2003

Mr. Dave Jacobson
South Dakota Public Utilities Commission
State Capitol Building
500 East Capitol Avenue
Pierre, South Dakota 57501-5070

Dear Dave: **CONFIDENTIAL TREATMENT REQUESTED**

Attached to this email please find Xcel Energy's answer to question 2 of your data request of June 24, 2003 regarding Docket EL03-020.

Xcel Energy respectfully requests confidential treatment of the Word document named "XEM Commodity Policy-UPDATED 10-19-01" attached to this email as specified in ARSD 20:10:01:41 - Requests for confidential treatment of information. All pages, which include such proprietary information, have been marked "Confidential." Following are Xcel Energy's responses to the 5 points cited in this administrative rule:

(1) An identification of the document and the general subject matter of the materials or the portions of the document for which confidentiality is being requested;

Xcel Energy seeks confidential treatment of trade secret data presented in this policy document.

(2) The length of time for which confidentiality is being requested and a request for handling at the end of that time;

Xcel Energy requests this document be maintained confidential through the lifetime of the EL03-020 Docket. Xcel requests that all confidential information provided by Xcel in this docket be deleted following resolution of this docket.

(3) The name, addresses, and phone number of a person to be contacted regarding the confidentiality request;

Jim Wilcox
PO Box 988
Sioux Falls, SD 57101-0988
605 / 339-8350

(4) The statutory or common law grounds and any administrative rules under which confidentiality is requested.

The material is proprietary information, the disclosure of which would result in material damage to the company's financial or competitive position. ARSD 20:10:01:42. The filing contains trade secret data of which disclosure might have an adverse impact on Xcel Energy and its ratepayers.

(5) The factual basis that qualifies the information for confidentiality under the authority cited.

The material reveals trade secret policy.

If anyone has any questions, please call me at 339-8350

Sincerely,

JCWilcox

Jim Wilcox

c. Kent Larson
Judy Poferl
Al Krug
John Chow

CONFIDENTIAL

#1

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA

IN THE MATTER OF THE PETITION FILED BY XCEL ENERGY FOR APPROVAL OF THE INCLUSION OF FINANCIAL INCENTIVES IN ITS FUEL CLAUSE	))))	**ORDER APPROVING EXTENSION** **EL03-020**

On December 23, 1999, the Public Utilities Commission (Commission) received a Petition for Approval of the Inclusion of Financial Incentives in its Fuel Clause from Northern States Power Company (NSP), nka Xcel Energy (Xcel). In the petition, NSP requested approval of the use of financial instruments and linked transactions to be considered as part of its Fuel Adjustment Clause pursuant to SDCL 49-34A-25.

In its petition, NSP requested that it be allowed to use financial instruments such as futures contracts, option contracts, and linked transactions to help reduce price and volatility for its customers. The first type of instrument proposed to be used by NSP is a futures contract. A futures contract is similar to a forward contract in that it locks in the price of electricity. The difference is that with a futures contract NSP will typically close out the futures contract and then purchase energy at the market price. NSP would then reflect the locked-in price through the recognition on NSP's books of a gain or loss on the transaction and apply the gains and losses to the fuel clause.

The second type of instrument is an option contract. An option contract will give NSP the choice to elect delivery at a fixed price, by paying an option premium, without any obligation to actually take the energy. NSP stated that it may utilize options with power-producing entities or with futures contracts. NSP stated that the costs and revenues of options contracts should be allowed to flow through the fuel clause because those costs and revenues reflect the actual costs and benefits of securing optimally priced power.

The third type of instrument is a "linked" or transmission sensitive forward contract. This type of instrument would allow NSP to create linked forward transactions based upon transmission price differentials in order to lower costs. NSP stated that opportunities to link transactions exist because of regional market price differences and that linked transactions can result in lower overall total cost of energy to customers. NSP stated that without fuel clause recovery, it would take a loss on this transaction.

Prior to scheduling this filing for Commission decision, Staff and NSP briefed the Commission on the legality of including the costs and effects of such transactions in NSP's fuel clause. Concurrent with briefing, Staff and NSP submitted a Stipulation of Facts to the Commission. Attached to the Stipulation of Facts were Exhibits B, 1, and C which were agreed to by Staff and NSP in the event the Commission approved NSP's filing. Exhibit B was a list of conditions which NSP would comply with. Exhibit 1 was a revised tariff sheet with language incorporating hedging transactions into the fuel clause. Exhibit C was NSP's Commodity Risk Management Policy.

On April 27, 2000, the Commission voted unanimously to approve NSP's petition subject to the conditions in Exhibit B and subject to NSP following its Commodity Risk Management Policy (Exhibit C).

On April 6, 2001, Xcel Energy fka NSP (Xcel) filed its compliance filing and a request for an extension of the test period which would be subject to the same limitations and reporting requirements as the Commission's previous approval (contained in Exhibit B). At its April 17, 2001, meeting, the Commission considered this matter. The Commission voted unanimously to approve the extension and to change the reporting requirements to biannual filings. The Commission also adopted the conditions as stated in Exhibit B, which was incorporated by reference.

On June 3, 2003, Xcel Energy fka NSP filed its compliance filing and a request for renewal required in the order approving extension in Docket EL99-021. Xcel explained that it had neglected to file for approval of an extension for the test period of May 10, 2002, through May 10, 2003, and was now seeking approval of that extension. In addition, Xcel requested an approval of a current extension which would now include a test period comprising of calendar year 2003. Additionally, Xcel requested that the reporting requirement contained in Exhibit B be revised to specify annual reporting requirements instead of biannual. Xcel also informed Staff that it had updated its Commodity Risk Management Policy which was revised as of September 6, 2001.

On July 1, 2003, the Commission considered Xcel's request for extensions at a regularly scheduled meeting. Commission Staff recommended approval of the request for the extension for the period of May 10, 2002, to May 10, 2003, and approval of a new extension for CY 2003. Staff also recommended that the conditions which had formerly been referenced in Exhibit B, now be included in the order approving the request. Staff also recommended conditioning approval on Xcel following its September 6, 2001, Commodity Risk Management Policy. Xcel did not object to those recommendations.

The Commission has jurisdiction over this matter pursuant to SDCL Chapter 49-34A, specifically SDCL 49-34A-25. At its July 1, 2003, meeting, the Commission considered this matter. The Commission voted unanimously to approve the extension with the revisions and conditions proposed by Staff. It is therefore

ORDERED, that:

1. Xcel shall submit an activity report to the SDPUC on an annual basis, concurrent with future requests for extension, which will include gains, losses, premium expenses, premium revenues, and transaction costs in FERC Account 555. The report must also detail:

a. each hedging instrument entered into;
b. the total Mwh contracted for, for each instrument; and
c. the net gain or loss, including all transaction costs, for each instrument in comparison to Xcel's incremental energy cost.

2. Xcel's extension requested for the May 10, 2002, to May 10, 2003, test period is hereby granted and the extension for the test period of January 1, 2003, through December 31, 2003, is also granted. Further extensions of the test period are subject to Commission approval.

3. Losses, premiums, transaction costs, and any other costs associated with this plan passed through to South Dakota customers through the fuel adjustment clause are capped at $875,000 per year.

4. The Commission retains the ability to terminate Xcel's authority to pass through costs associated with the above described activities at any time provided it gives Xcel at least a three month notice.

5. Xcel shall follow its Commodity Risk Management Policy dated September 6, 2001.

Dated at Pierre, South Dakota, this 14th day of July, 2003.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that this document has been served today upon all parties of record in this docket, as listed on the docket service list, by facsimile or by first class mail, in properly addressed envelopes, with charges prepaid thereon.

By: Delaine Kolbo

Date: 7/16/03

(OFFICIAL SEAL)

BY ORDER OF THE COMMISSION:

Robert K. Sahr

ROBERT K. SAHR, Chairman

Gary Hanson

GARY HANSON, Commissioner

James A. Burg

JAMES A. BURG, Commissioner