Northern States Power Company, a Minnesota corporation

Cost Assignment and Allocation Manual

Docket No. EL09-___
June 2009

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I. INTRODUCTION

This Cost Assignment and Allocation Manual ("CAAM") was developed to specify the procedures that Northern States Power Company, a Minnesota corporation ("NSPM" or the "Company") follows in assigning and allocating costs among utility departments (electric and gas), among regulated services and nonregulated business activities and among jurisdictions.

NSPM was incorporated in 2000 under the laws of Minnesota and is an operating utility subsidiary of Xcel Energy Inc. (sometimes referred to as the "Parent"). Xcel Energy Inc. was initially established as a registered holding company under the Public Utility Holding Company Act of 1935 ("PUHCA 1935"), with oversight by the Securities and Exchange Commission ("SEC"). On August 8, 2005, the Energy Policy Act of 2005 was signed into law. This repealed PUHCA 1935 and enacted the Public Utility Holding Company Act of 2005 ("PUHCA 2005"), which became effective on February 8, 2006. Responsibility for oversight of public utility holding companies was transferred from the SEC to the Federal Energy Regulatory Commission ("FERC") as a result of the Energy Policy Act of 2005.

NSPM is engaged in the generation, purchase, transmission, distribution and sale of electricity in Minnesota, North Dakota and South Dakota. NSPM also purchases, distributes and sells natural gas to retail customers and transports customer-owned natural gas in Minnesota and North Dakota.

NSPM owns the following direct subsidiaries: United Power and Land Co., which holds real estate; Private Fuel Storage LLC, which is involved in developing a private temporary spent nuclear fuel facility; and NSP Nuclear Corp., which holds NSPM's interest in Nuclear Management Co. NSPM is a wholly owned subsidiary of Xcel Energy.

As a member of a holding company system, NSPM receives administrative, management, environmental and other support services from Xcel Energy Services Inc. ("XES" or the "Service Company"), a centralized service company. The Service Company provides services to the Xcel Energy Inc. subsidiaries, at cost, pursuant to service agreements.
The Service Company is referenced in the CAAM for the following reasons:

- The Service Company is listed as an affiliate company in the Affiliate Transaction section for the services it provides to NSPM.
- The Service Company and all other companies in the Xcel Energy Inc. holding company system of companies are included in the Corporate Organization to provide a listing of all affiliates of NSPM.
- The Service Company is also referenced in the Cost Assignment and Allocation Process section because this section covers processes that may cross multiple legal entities.

The NSPM CAAM contains the following sections:

- Introduction (Section I)
- Corporate Organization (Section II)
- Description of Services (Section III)
- Transactions with Affiliates (Section IV)
- Cost Assignment and Allocation Process (Section V)
- Allocating Workorders (Section VI)
- Utility Allocations (Section VII)
- Nonregulated Activity Allocations (Sections VIII)
- Jurisdictional Allocations (Section IX)
- Definitions (Section X)

II. CORPORATE ORGANIZATION

OVERVIEW OF COMPANY SYSTEM

Xcel Energy Inc., a Minnesota corporation, is a registered holding company. The Parent directly owns four operating public utility subsidiaries that serve electric, natural gas, thermal and propane customers in 8 states. These four utility subsidiaries are NSPM; Northern States Power Company, a Wisconsin corporation ("NSPW"); Public Service Company of Colorado, a Colorado corporation ("PSCo"); and Southwestern Public Service Company, a New Mexico corporation ("SPS"). Their collective service territories include portions of Colorado, Michigan, Minnesota, New Mexico, North Dakota, South Dakota, Texas and Wisconsin. The Parent's regulated businesses also include WestGas InterState, Inc., an interstate natural gas pipeline company regulated by the FERC.

The Parent's nonregulated subsidiaries include Eloigne Co. (holding investments in rental housing projects that qualify for low-income housing tax credits).

The Parent owns the following additional direct subsidiaries, some of which are intermediate holding companies with additional subsidiaries: Xcel Energy Wholesale Group Inc., Xcel Energy Markets Holdings Inc., Xcel Energy International Inc., Xcel Energy Ventures Inc., Xcel Energy Retail Holdings Inc., Xcel Energy Communications Group Inc., Xcel Energy WYCO Inc., and Xcel Energy Services Inc. Xcel Energy Inc. and its subsidiaries collectively are referred to as Xcel Energy Inc., and many do business under the Xcel Energy name. See the following pages for a complete legal entity organizational listing for Xcel Energy Inc. and its subsidiaries.

LIST OF REGULATED & NONREGULATED AFFILIATES (as of December 31, 2008)

Xcel Energy Inc.
- Northern States Power Co., a Minnesota corporation
  - NSP Nuclear Corporation
    - Nuclear Management Company, LLC
  - Private Fuel Storage LLC
  - United Power and Land Company
- Northern States Power Co., a Wisconsin corporation
  - Chippewa and Flambeau Improvement Company
  - Clearwater Investments, Inc.
    - CMS LLC
    - Plover LLC
    - Shoe Factory Holdings LLC
    - Woodsedge Eau Claire LP
  - NSP Lands, Inc.
    - Prescott Development, LLC

LIST OF REGULATED & NONREGULATED AFFILIATES (as of December 31, 2008) (continued)

- Public Service Company of Colorado, a Colorado corporation
  - 1480 Welton, Inc.
  - Baugh Lateral Ditch Company
  - Beaver Ditch Company
  - Beeman Ditch Company
  - Consolidated Extension Canal Company
  - Dry Creek No. 2 Ditch Company
  - East Boulder Ditch Company
  - Enterprise Irrigating Ditch Company
  - Fisher Ditch Company
  - Gardeners' Mutual Ditch Company
  - Green & Clear Lakes Company
  - Hillcrest Ditch and Reservoir Company
  - Jones and Donnelly Ditch Company
  - Las Animas Consolidated Canal Company
  - McDonald (Prairie) Ditch Company
  - PSR Investments, Inc.
  - Mutual Lateral Ditch Company
  - United Water Company
  - Westmoor Acres Irrigation Company
- Southwestern Public Service Company, a New Mexico corporation
- WestGas InterState, Inc.
- Xcel Energy Communications Group Inc.
  - Seren Innovations, Inc.
  - NCE Communications Inc.
- Xcel Energy Foundation
- Xcel Energy International Inc.
  - Xcel Energy Argentina Inc.
- Xcel Energy Markets Holdings Inc.
  - e prime, Inc.
  - Young Gas Storage Company Ltd.
- Xcel Energy Retail Holdings, Inc.
  - Reddy Kilowatt Corporation
  - Xcel Energy-Cadence Inc.
    - Cadence Network, Inc.
  - Xcel Energy Performance Contracting Inc.
- Xcel Energy Services Inc.

LIST OF REGULATED & NONREGULATED AFFILIATES (as of December 31, 2008) (continued)

Xcel Energy Ventures Inc.
- Eloigne Company
  - Albany Countryside LP
  - Bemicil Townhouse LP
  - Central Towers LP
  - Chaska Brickstone LP
  - Civic Center Apartment LLLP
  - Colfax Prairie Homes LP
  - Cottage Court LP
  - Cottage Homesteads of Hillcrest LP
  - Cottage Homesteads of Willow Ponds LP
  - Cottages of Vadnais Heights LP
  - Crown Ridge Apartments LP
  - Dakotah Pioneer LP
  - Driftwood Partners LP
  - East Creek LP
  - Edenvale Family Housing LP
  - Fairview Ridge LP
  - Farmington Family Housing LP
  - Farmington Townhome LP
  - Granite Hill LP
  - Groveland Terrace Townhomes LP
  - Hearthstone Village LP
  - J&D 14-93 LP
  - Jefferson Heights of Zumbrota LP
  - Lakeville Court LP
  - Lauring Green LP
  - Links Lane LP
  - Lyndale Avenue Townhomes LP
  - Mahtomeci Woodland LP
  - Majestic View LP
  - Mankato Townhomes LLP
  - Marsh Run of Brainerd LP
  - Marvin Garden LP
  - MDI LP #44
  - Moorhead Townhomes LP
  - Oakdale Leased Housing Associates LP
  - Park Rapids Townhomes LP
  - Plover LLC
  - Polynesian Village 1994 LP
  - Rochester Townhome LP
  - Rushford Housing LP
  - RWIC Credit Fund LP-1993
  - Safe Haven Homes, LLC
  - Shade Tree Apartments LP

LIST OF REGULATED & NONREGULATED AFFILIATES (as of December 31, 2008) (continued)

- Shakopee Boulder Ridge LP
- Shenandoah Woods LP
- Sioux Falls Housing Equity Fund II LP
- Sioux Falls Partners LP
- Sioux River LP
- St. Cloud Housing LP
- Stradford Flats LP
- Tower Terrace LP
- Woodland Village LP
- Wyoming LP
- Wyoming LP II

Xcel Energy Wholesale Group Inc.

- Quixx Corporation (1)
  - Quixx Carolina, Inc. (1)
  - Quixx Linden, LP (1)
  - Quixxlin Corp. (1)
    - Quixx Linden LP (1)

Xcel Energy WYCO Inc.

- WYCO Development, LLC

(1) Company is being classified in discontinued operations

III. DESCRIPTION OF SERVICES

OVERVIEW

The following pages provide a description of NSPM's regulated services and nonregulated business activities. Each description identifies the types of costs associated with each service or business activity, and identifies the business area or department which offers the service.

REGULATED SERVICES

ELECTRIC UTILITY

Electric – Residential

Residential electric service represents the provision of electric service to residential customers within the NSPM service territory. Costs associated with this service relate to the generation or purchase and delivery of electricity through Company-owned transmission and distribution facilities, primarily fuel or purchased power costs, facilities operation and maintenance ("O&M") and depreciation costs, and administrative and general ("A&G") costs. These costs reside within the NSPM Electric Utility.

Electric – Commercial and Industrial

Commercial and industrial electric service represents the provision of electric service to commercial and industrial customers within the NSPM service territory. Costs associated with this service relate to the generation or purchase and delivery of electricity through Company-owned transmission and distribution facilities, primarily fuel or purchased power costs, facilities O&M and depreciation costs, and A&G costs. These costs reside within the NSPM Electric Utility.

Electric – Street Lighting

Street lighting electric service represents the provision of electric service to public authorities for lighting streets, highways, parks and other public places, or for traffic or other signal system service through Company-owned or customer-owned lighting equipment. Costs associated with this service relate to the generation or purchase and delivery of electricity through Company-owned transmission and distribution facilities, primarily fuel or purchased power costs, facilities O&M and depreciation costs, and A&G costs. These costs reside within the NSPM Electric Utility.

Electric – Other Sales to Public Authorities

Other sales to public authority electric service represents the provision of electric service to public authorities under special agreements or contracts. Costs associated with this service relate to the generation or purchase and delivery of electricity through Company-owned transmission and distribution facilities, primarily fuel or purchased power costs, facilities O&M and depreciation costs, and A&G costs. These costs reside within the NSPM Electric Utility.

Electric - Resale

Resale electric service represents the provision of electric service to NSPM wholesale customers or public authorities for resale to end-user customers or to power marketers. Costs associated with this service relate to the generation or purchase and delivery of electricity through Company-owned transmission and distribution facilities, or through facilities owned by third parties, primarily fuel or purchased power costs, facilities O&M and depreciation costs, and A&G costs. These costs reside within the NSPM Electric Utility.

Electric - Interdepartmental

Interdepartmental electric service represents the provision of electric service to NSPM Company facilities at tariff rates. Costs associated with providing this service relate to the generation or purchase and delivery of electricity through Company-owned transmission and distribution facilities, primarily fuel or purchased power costs, facilities O&M and depreciation costs, and A&G costs. These costs reside within the NSPM Electric Utility.

Off-System Electric Sales

NSPM sells electricity not required to serve its native load to off-system customers. Costs related to this activity can include fuel and purchased power costs. The revenues associated with these sales reside in FERC account 447, Sales for Resale-Electric. The costs related to this activity reside in FERC accounts 501, Fuel-Steam Generation, 555, Purchased Power, and 565, Transmission of Electricity by Others. In addition, the Company may allocate production O&M and transmission costs based on a percentage of overall sales relative to the type of off-system sales. These costs reside within the NSPM Electric Utility.

OTHER ELECTRIC REVENUE

Rent from Electric Property

Rent from electric property results from the leasing of NSPM owned utility property not currently utilized for the provision of regulated services to non-affiliated third parties. Costs related to this service are primarily A&G costs associated with customer billings, as well as rental contract renewals. The revenue associated with the rentals resides in FERC account 454, Rent from Electric Property.

Interchange Agreement

The Interchange Agreement is a FERC-approved rate schedule that provides for the intercompany sharing of production and transmission costs of NSPM and NSPW. NSPM and NSPW operate an integrated production and transmission system, and the Interchange Agreement provides for the costs of that integrated system to be shared between NSPM and NSPW based upon demand and energy ratios reflecting usage by the respective companies. The costs associated with this agreement reside in FERC account 557, Other Power Supply Expenses, and FERC 566, Miscellaneous Transmission Expenses. The revenues reside in FERC account 456, Other Electric Revenues.

Joint Operating Agreement

The Joint Operating Agreement is for margin sharing associated with proprietary energy trading activities. Revenues are recorded in FERC 456, Other Electric Revenues.

Miscellaneous Electric Revenue

In addition to the services detailed above, there are various activities that cannot be accounted for elsewhere, such as utility locating services, scrap metal sales, Windsource, customer connections and refuse derived fuel incentive. These revenues are recorded in FERC account 456, Other Electric Revenues.

GAS UTILITY

Gas - Residential

Residential gas service represents the provision of natural gas service to residential customers within the NSPM service territory. Costs associated with this service relate to the purchase and delivery of gas through Company-owned facilities, primarily purchased gas, facilities O&M and depreciation costs, and A&G costs. These costs reside within the NSPM Gas Utility.

Gas – Commercial and Industrial

Commercial and industrial gas service represents the provision of natural gas service to commercial and industrial customers within the NSPM service territory. Costs

associated with this service relate to the purchase and delivery of gas through Company-owned facilities, primarily purchased gas, facilities O&M and depreciation costs, and A&G costs. These costs reside within the NSPM Gas Utility. The table below shows the various rate classes within commercial and industrial gas services.

Rate Class	Maximum Requirements – Daily Therms	Maximum Requirements – Annual Therms
Small commercial	Less than 500	Less than 6,000
Large commercial	Less than 500	Greater than 6,000
Small demand billed commercial*	Less than 500	
Large demand billed commercial*	Greater than 500	

* Upstream demand costs are billed based on the highest one-day usage in the customer's history.

Gas - Interruptible

Interruptible gas service represents the provision of natural gas service to interruptible customers within the NSPM service territory. Interruptible service is subject to curtailment when either additional upstream pipeline or local distribution capacity is needed to ensure service to firm customers. Costs associated with this service relate to the purchase and delivery of gas through Company-owned facilities, primarily purchased gas, facilities O&M and depreciation costs, and A&G costs. These costs reside within the NSPM Gas Utility. The table below shows the various rate classes within interruptible gas service.

Rate Class	Maximum Requirements – Daily Therms
Small interruptible	Less than 2,000
Medium interruptible	Greater than 2,000 and less than 50,000
Large interruptible	Greater than 50,000

Gas – Large Firm Transportation

Large firm gas transportation service represents the provision of gas delivery service on behalf of end-use customers, third-party suppliers or marketers whereby NSPM transports gas owned by others over NSPM's gas pipeline system. Costs associated with this service primarily include the facilities O&M and depreciation costs, and A&G costs. These costs reside within the NSPM Gas Utility.

Gas – Interruptible Transportation

Interruptible gas transportation service represents the provision of gas delivery service on behalf of end-use customers, third-party suppliers or marketers whereby NSPM transports gas owned by others over NSPM's gas pipeline system. Interruptible transportation gas service is subject to curtailment when either additional upstream

pipeline or the local distribution capacity is needed to ensure service to firm customers. Costs associated with this service primarily include the facilities O&M and depreciation costs, and A&G costs. These costs reside within the NSPM Gas Utility.

Gas – Negotiated Transportation

Negotiated firm and interruptible gas transportation service (bypass customers) represents the provision of gas delivery service on behalf of end-use customers, third-party suppliers or marketers whereby NSPM transports gas owned by others over NSPM's gas pipeline system. Interruptible transportation gas service is subject to curtailment when either additional upstream pipeline or the local distribution capacity is needed to ensure service to firm customers. Costs associated with this service primarily include the facilities O&M and depreciation costs, and A&G costs. These costs reside within the NSPM Gas Utility.

Gas – Interdepartmental

Interdepartmental gas service represents the provision of natural gas service or gas transportation service to NSPM Company facilities at tariff rates. Costs associated with providing this service relate to the purchase and delivery of gas through NSPM owned facilities, primarily purchased gas, facilities O&M and depreciation costs, and A&G costs. These costs reside within the NSPM Gas Utility.

Gas – Limited Firm

Standby gas service represents on-system back-up propane service for interruptible service customers. Costs associated with this service primarily include propane purchases and the facilities O&M. These costs reside within the NSPM Gas Utility.

Gas – Daily Balancing Service

Daily balancing gas service represents a service to transportation customers that allows them to remedy deviations between nominated and delivered gas and gas actually consumed by the transportation customer. Costs associated with this service primarily include upstream pipeline costs. These costs reside within the NSPM Gas Utility.

OTHER GAS REVENUE

Miscellaneous Gas Revenue

Various services are provided that cannot be accounted for elsewhere such as propane transportation charges and bundled sales. These revenues are recorded in FERC account 495, Other Gas Revenues.

COMMON ELECTRIC AND GAS REVENUE

Late Payment Fees/Miscellaneous Service Revenues

Revenues from the additional charges imposed because of customers failure to pay their bill by specified the due date are recorded into FERC account 450, Electric Forfeited Discounts, and FERC account 487, Gas Forfeited Discounts. Miscellaneous customer related revenue, such as service connections and returned check charges, are recorded in FERC account 451, Miscellaneous Electric Service Revenue, and FERC account 488, Miscellaneous Gas Service Revenues.

Conservation Improvement Incentives ("CIP")

The CIP Incentive is a mechanism established by an April 7, 2000 Order of the Minnesota Public Utilities Commission that provides utilities with an incentive to increase cost-effective utility investment in Demand Side Management ("DSM") beyond the spending levels required by Minnesota Statute. The revenues associated with the CIP incentives are identified by unique JD Edwards ("JDE") accounts and are recorded in FERC account 456, Other Electric Revenues, and 495, Other Gas Revenues. There is not currently a conservation improvement program active in South Dakota, however there is a docket pending approval.

ConnectSmart

NSPM provides a service for customers moving into or across the region to set up utility service and other subscription services to their homes (i.e., newspaper, local and long-distance telephone, cable TV, etc.). NSPM, through its call center, receives telephone requests for this service, and sends these requests, for a fee, to AllConnect (a third-party contractor) for the coordination of installation of services. Costs related to this activity include direct charges for labor, materials and outside services associated with the service provided. In addition, payroll taxes, lost time and pension and benefit costs are allocated based on labor dollars. The revenues and costs associated with this service are identified by unique JDE accounts, and are recorded in FERC accounts 417, Revenues from Nonutility Operations, and 417.1, Expenses from Nonutility Operations. For rate making purposes in the event this service experiences revenues in excess of direct expenses, an adjustment is made to credit the net impact in FERC account 456, Other Electric Operating Revenues to reflect the benefit of this service to the utility customers.

Hazardous Waste Disposal

NSPM has a Hazardous Waste Consolidation facility at Chestnut Service Center in Minneapolis, Minnesota. The facility gathers hazardous waste material from power plants and service centers in both NSPM and NSPW service territories, consolidates and compacts the material, and packages it for shipment to a permanent hazardous waste disposal site. In addition, NSPM provides these services to various third party customers.

NONREGULATED BUSINESS ACTIVITIES

The following business activities exist as nonregulated business activities within NSPM. Detailed descriptions of each of the nonregulated business activities are provided in this section.

HomeSmart

NSPM offers a preventive maintenance subscription option for electric and gas appliances, as well as for Heating Ventilation and Air Conditioning ("HVAC") equipment and provides related repairs as part of this service. In addition, NSPM installs furnaces and air conditioners. Costs related to these activities include direct charges for labor, materials and outside services associated with the services provided. In addition, payroll taxes, lost time and pension and benefit costs are allocated based on labor dollars, and a labor related overhead and a corporate residual overhead are applied to nonregulated business activities. (Please refer to Section VIII of the CAAM for more information). The revenues and costs associated with this service are identified by unique JDE accounts, and are recorded in FERC account 417, Revenues from Nonutility Operations, and 417.1, Expenses from Nonutility Operations.

Customer Owned Street Lighting Maintenance

NSPM supplies maintenance services for communities that own their own street light systems. Services range from lamp replacement and cleaning to a full service maintenance package, which includes pole, fixture and underground fault repair. Costs related to this activity include labor and materials associated with the service provided. In addition, payroll taxes, lost time and pension and benefit costs are allocated based on labor dollars, and a labor related overhead and a corporate residual overhead are applied to nonregulated business activities. The revenues and costs associated with this service are identified by unique JDE accounts and are recorded in FERC account 417, Revenues from Nonutility Operations, and 417.1, Expenses from Nonutility Operations.

Sherco Steam Sales to Liberty Paper, Inc

NSPM supplies steam from the Sherburne County Generating Station to Liberty Paper, Inc. ("LPI") in order to meet LPI's thermal energy needs. The revenues and costs associated with this service are identified by unique JDE accounts, and are recorded in FERC account 417, Revenues from Nonutility Operations, and 417.1, Expenses from Nonutility Operations.

IV. TRANSACTIONS WITH AFFILIATES

OVERVIEW

NSPM directly incurs and pays for the majority of its costs. There are, however, services provided to NSPM by other affiliates within the Xcel Energy system of companies, primarily the Service Company. In addition, NSPM provides a limited amount of operations, maintenance and management advisory services to its affiliates.
The sections below separately detail the nature and terms of transactions for services and asset transfers provided by NSPM to its affiliates, as well as services and asset transfers provided to NSPM by each of its affiliates. This section includes descriptions of affiliate transactions only, and does not include convenience payments. Refer to Section X for a definition of convenience payments.

As noted in the Introduction, NSPM receives administrative, management, accounting, legal, engineering, environmental and other support services from the Service Company. The Service Company provides the services to the Xcel Energy Inc. subsidiaries, at cost, pursuant to service agreements and allocation methods that were approved by the SEC under PUHCA 1935 prior to implementation. While federal supervision over utility holding companies was transferred from the SEC to FERC in 2005, there have been no changes or updates in the XES allocation methods since 2004 and only minor changes in the service agreement to reflect transfer of oversight to the FERC. The cost allocation methodologies under which the Service Company costs are assigned and allocated are set forth in the service agreement, and while they are not the subject of this NSPM CAAM, they are included in this section to provide as complete a picture as possible of all affiliate transactions. NSPM's affiliate transactions currently consist primarily of transactions with the Service Company for these services.

Terms of Transactions

Tariff Rate – The price charged to customers under applicable tariffs on file with federal or state regulatory commissions. Tariff rates are used for transactions with affiliates involving the provision of regulated services.

Fully Distributed Cost – The term Fully Distributed Cost means that transactions billed include all direct and indirect costs, including overheads. Affiliate transactions billed by NSPM include labor related overheads and a working capital fee when appropriate. This method of assigning and allocating costs to these affiliate transactions ensures that the payments to or by NSPM are reasonable and have not resulted in any ratepayer subsidization. In the below table, the term may also refer to a price established in a separate Affiliated Interest Agreement.

NSPM applies a labor related overhead to services provided by NSPM to affiliates and also applies a working capital fee on services NSPM provides to non-NSPM company affiliates. Both the labor related overhead and the working capital fee are discussed in Section VIII.

The remainder of this section is detailed by affiliate. Affiliates may be listed under the "Services Provided by NSPM to Affiliates" section and/or the "Services Provided by Affiliates to NSPM" section. The details relating to the nature, and terms of the affiliate transactions are itemized for NSPM and each affiliate.

SERVICES PROVIDED BY NSPM TO AFFILIATES

Nature of Transactions	Terms
NSPW	
Operations and Maintenance – Production, decommissioning and transmission costs associated with the Interchange Agreement (FERC Docket No. ER02-808-000).	Fully distributed cost
SCADA and Gas Dispatch – Sharing of SCADA costs in accordance with Docket G-002/AI-94-831.	Fully distributed cost
Materials and Supplies – Materials and supplies, including any associated freight, purchase loadings and warehouse loadings.	Fully distributed cost
Miscellaneous – Miscellaneous other charges, including labor, lease costs, lawn care, sewer and trash removal.	Fully distributed cost
PSCo	
Materials and Supplies – Materials and supplies, including any associated freight, purchase loadings and warehouse loadings.	Fully distributed cost
Joint Operating Agreement – Margin sharing associated with proprietary energy trading activities.	Fully distributed cost
Miscellaneous – Miscellaneous other charges, including contract labor and lease costs.	Fully distributed cost

SERVICES PROVIDED BY NSPM TO AFFILIATES (continued)

Nature of Transactions	Terms
SPS	
Materials and Supplies – Materials and supplies, and any associated freight, purchase loadings and warehouse loadings.	Fully distributed cost
Joint Operating Agreement – Margin sharing associated with proprietary energy trading activities.	Fully distributed cost
Miscellaneous – Miscellaneous other charges, including labor and associated loadings and lease costs.	Fully distributed cost
Eloigne Company	
Miscellaneous – Miscellaneous other charges, including lease costs.	Fully distributed cost
United Power and Land Company	
Electric – Commercial and Wholesale – Regulated electric services.	Tariff rate

SERVICES PROVIDED BY AFFILIATES TO NSPM

Xcel Energy Services Inc.

Xcel Energy Services Inc. is the service company for the Xcel Energy Inc. system and provides a variety of accounting, administrative, management, legal, engineering, construction, environmental and support services. The Service Company provides its services to the Xcel Energy Inc. system at cost, pursuant to service agreements and allocation methods that were approved by the SEC under PUHCA 1935 prior to implementation. While supervision over utility holding companies was transferred from the SEC to FERC in 2005, there have been no changes or updates in the XES allocation methods since 2004 and only minor changes in the service agreement to reflect transfer of oversight to the FERC. The nature and terms of the services provided by the Service Company to NSPM are as follows:

Nature of Transactions	Terms
*Executive Management Services** – Represents charges for Xcel Energy Inc. executive management and services, including, but not limited to, officers of Xcel Energy Inc.	Fully distributed cost
*Investor Relations** – Provides communications to investors and the financial community. Coordinates the transfer agent and shareholder record keeping functions and plans the annual shareholder meeting.	Fully distributed cost
*Internal Audit** – Reviews internal controls and procedures to ensure assets are safeguarded and transactions are properly authorized and recorded. Evaluates contract risks.	Fully distributed cost
*Legal** – Provides legal services related to labor and employment law, litigation, contracts, rates and regulation, environmental matters, real estate and other legal matters.	Fully distributed cost
*Claims Services** – Provides claims services related to casualty, public and company claims.	Fully distributed cost

SERVICES PROVIDED BY AFFILIATES TO NSPM (continued)

Nature of Transactions	Terms
*Corporate Communications** – Provides corporate communications, speech writing and coordinates media services. Provides advertising and branding development for the companies within the Xcel Energy Inc. system. Manages and tracks all contributions made on behalf of the Xcel Energy Inc. system.	Fully distributed cost
*Employee Communications** – Develops and distributes communications to employees.	Fully distributed cost
*Corporate Strategy & Business Development** – Facilitates development of corporate strategy and prepares strategic plans, monitors corporate performance and evaluates business opportunities. Develops and facilitates process improvements.	Fully distributed cost
*Government Affairs** – Monitors, reviews and researches government legislation.	Fully distributed cost
*Facilities & Real Estate** – Operates and maintains office buildings and service centers. Procures real estate and administers real estate leases. Administers contracts to provide security, housekeeping and maintenance services for such facilities. Procures office furniture and equipment.	Fully distributed cost
*Facilities Administrative Services** – Includes, but is not limited to, the functions of Mail Delivery, Duplicating and Records Management.	Fully distributed cost
*Supply Chain**– Includes contract negotiations, development and management of supplier relationships and acquisition of goods and services. Also includes inventory planning and forecasting, ordering, accounting and database management. Warehousing services include receiving, storing, issuing, shipping, returns and distribution of material and parts.	Fully distributed cost

SERVICES PROVIDED BY AFFILIATES TO NSPM (continued)

Nature of Transactions	Terms
*Supply Chain Special Programs** – Develops and implements special programs utilized across the company such as procurement cards, travel services and compliance with corporate minority women business expenditures program goals.	Fully distributed cost
*Human Resources ("HR")** – Establishes and administers policies related to employment, compensation and benefits. Maintains HR computer system, the tuition reimbursement plan and diversity program. Coordinates the bargaining strategy and labor agreements with union employees. Provides technical and professional development training and general HR support services.	Fully distributed cost
*Finance & Treasury** – Coordinates activities related to securities issuance, including maintaining relationships with financial institutions, cash management, investing activities and monitoring the capital markets. Performs financial and economic analysis.	Fully distributed cost
*Accounting, Financial Reporting & Taxes** – Maintains the books and records. Prepares financial and statistical reports, tax filings and ensures compliance with the applicable laws and regulations. Maintains the accounting systems. Coordinates the budgeting process.	Fully distributed cost
*Business Unit Accounting and Budgeting** – Provides financial analysis, budgeting and administrative support for the business units. (In addition, certain Business Unit Presidents are here rather than in the Executives service function.)	Fully distributed cost
*Payment & Reporting** – Processes payments to vendors and prepares statistical reports.	Fully distributed cost
*Receipts Processing** – Processes payments received from customers of the operating companies and affiliates.	Fully distributed cost

SERVICES PROVIDED BY AFFILIATES TO NSPM (continued)

Nature of Transactions	Terms
*Payroll** – Processes payroll including, but not limited to, time reporting, calculation of salaries and wages, payroll tax reporting and compliance reports.	Fully distributed cost
*Rates & Regulation** – Determines the operating companies' regulatory strategy, revenue requirements and rates for electric and gas customers. Coordinates the regulatory compliance requirements and maintains relationships with the regulatory bodies.	Fully distributed cost
*Energy Supply Engineering and Environmental** – Provides engineering services to the generation business. Establishes policies and procedures for compliance with environmental laws and regulations. Researches emerging environmental issues and monitors compliance with environmental requirements. Oversees environmental clean up projects.	Fully distributed cost
*Energy Supply Business Resources** – Provides performance, specialists and analytical services to the operating companies' generation facilities.	Fully distributed cost
*Energy Markets Regulated Trading & Marketing** – Provides electric trading services to the operating companies' electric generation systems, including load management, system optimization and resource acquisition.	Fully distributed cost
*Energy Markets-Fuel Procurement** – Purchases fuel for operating companies' electric generation systems (excluding nuclear).	Fully distributed cost
*Energy Delivery Marketing** – Develops new business opportunities and markets the products and services for the Delivery Business Unit.	Fully distributed cost
*Energy Delivery Construction, Operations & Maintenance** – Constructs, maintains and operates electric and gas delivery systems.	Fully distributed cost

SERVICES PROVIDED BY AFFILIATES TO NSPM (continued)

Nature of Transactions	Terms
*Energy Delivery Engineering/Design** – Provides engineering and design services in support of capacity planning, construction, operations and material standards.	Fully distributed cost
*Marketing & Sales** – Provides marketing and sales services for the operating companies and affiliates for their electric and natural gas customers, including strategic planning, segment identification, business analysis, sales planning and customer service.	Fully distributed cost
*Customer Service** – Provides service activities to retail and wholesale customers. These services include meter reading, customer billing, call center and credit and collections.	Fully distributed cost
*Business Systems** – Provides basic information technology services such as: application management, voice and data network operations and management, customer support services, problem management services, security administration and systems management. In addition, Business Systems acts as a single point of contact for delivery of all technical services to Xcel Energy Inc. They partner with IBM to ensure the delivery of benchmarking, continuous improvement, and leadership around strategic initiatives and key developments in the marketplace. They work collaboratively with partners and vendors to identify and co-fund opportunities that significantly benefit Xcel Energy Inc.'s business.	Fully distributed cost
*Aviation Services** – Provides aviation and travel services to employees.	Fully distributed cost
*Fleet** – Oversees the operating companies' Fleet Services.	Fully distributed cost

SERVICES PROVIDED BY AFFILIATES TO NSPM (continued)

Nature of Transactions	Terms
* Corporate Governance activities within this Service Function will be allocated using the average of the Assets Ratio including Xcel Energy Inc.'s per book assets, Revenue Ratio with intercompany dividends assigned to Xcel Energy Inc., and Employee Ratio with number of common officers assigned to Xcel Energy Inc.	
NSPW	
Operations and Maintenance – Production, decommissioning and transmission costs associated with the Interchange Agreement (FERC Docket No. ER02-808-000).	Fully distributed cost
Miscellaneous – Miscellaneous other charges, including labor and associated loadings, contract labor and employee expenses.	Fully distributed cost
Materials and Supplies – Materials and supplies, including any associated freight, purchase loadings and warehouse loadings.	Fully distributed cost
PSCo	
Miscellaneous – Miscellaneous other charges, including labor and associated loadings, lease costs, and employee expenses.	Fully distributed cost
SPS	
Miscellaneous – Miscellaneous other charges, including labor and associated loadings and lease costs.	Fully distributed cost
United Power and Land Company	
Miscellaneous – Miscellaneous other charges, including labor and associated loadings.	Fully distributed cost

V. COST ASSIGNMENT AND ALLOCATION PROCESS

OVERVIEW

This section of the CAAM provides an overview of the cost assignment and allocation principles of NSPM and the accounting processes within the monthly accounting close and within the JDE general ledger system, including both system generated processes and manual processes, used to assign and allocate costs between the regulated services and the nonregulated business activities of NSPM. Each major step of the accounting process is identified in the following paragraphs and will be explained in conjunction with the process flowchart on page V-18. Each major step results in costs being either directly assigned or allocated to regulated services and nonregulated business activities. The result of applying these principles is that each company, utility, jurisdiction and nonregulated business activity pays the full cost for any service provided to support their respective operations.

Many of the assignment and allocation processes occur either in the Service Company or are administered by Service Company personnel. As noted in the Introduction, the Service Company provides these services "at cost" to the Xcel Energy Inc. subsidiaries, including NSPM, pursuant to service agreements and allocation methods that were approved by the SEC under PUHCA 1935 prior to implementation. While federal supervision over utility holding companies was transferred from the SEC to FERC in 2005, there have been no changes or updates in the XES allocation methods since 2004 and only minor changes in the service agreement to reflect transfer of oversight to the FERC.

The processes discussed in this section are integral to the books and records of NSPM and are included to provide a comprehensive picture.

COST ASSIGNMENT AND ALLOCATION PRINCIPLES

NSPM applies the following cost assignment and allocation principles. The cost assignment and allocation approach is a fully distributed costing method.
The hierarchical cost assignment and allocation principles are:

1. Tariffed rate shall be used to value tariffed services provided.
2. Costs shall be directly assigned to either regulated or nonregulated business activities whenever possible.
3. Costs that cannot be directly assigned are common costs, which shall be grouped into homogeneous cost categories. Each cost category shall be allocated based on direct analysis of the origin of the costs whenever possible. If direct analysis is not possible, common costs shall be allocated based upon an indirect cost-causation.

4. Whenever neither direct nor indirect measures of cost causation can be found, the cost category shall be allocated based upon a general allocator.

A significant portion of NSPM's costs are incurred directly by NSPM. These costs are directly assigned or allocated based on the above principles to utilities, jurisdictions and to nonregulated business activities. Utility allocations are described in Section VII and jurisdictional allocations are described in Section IX.

ACCOUNTING PROCESSES

The flowchart on page V-18 provides a high level overview of the various major steps in the monthly accounting close process and the various systems used to generate the books and records of NSPM. Several steps within the process have allocations imbedded in them and are therefore included to provide as much information as possible to promote an understanding of the major steps where direct assignment and allocation can occur.

FEEDER SYSTEMS (Addendum A, Flowchart Item 1)

The monthly close process initially starts with the collection of accounting information from numerous feeder systems as identified in Item 1 on the flowchart. Feeder systems gather accounting transactions on a monthly basis and 'feed,' or pass, those accounting transactions to JDE to build the monthly books and records of each utility operating company or affiliate of Xcel Energy Inc. that uses the JDE general ledger system.

There are two basic types of transactions in the feeder systems:

- The first basic group of transaction consists of individual transactions fed directly to JDE. These transactions come from the PowerPlant System ("PowerPlant"), the Indus PassPort Integrated Supply Chain/Accounts Payable System ("PassPort") and the Maximo System.

  PowerPlant System

  PowerPlant tracks all capital projects and work order expenditures for Xcel Energy Inc. utility operating companies on a life-to-date basis. Once expenditures are recorded on the books of the appropriate legal entity, PowerPlant generates the overhead allocations and if appropriate the Allowance for Funds Used During Construction ("AFUDC"), and applies the overheads to the individual work orders. In addition, PowerPlant calculates monthly depreciation by legal entity and handles the transfer of work orders from FERC account 107, Construction Work in Progress, to FERC account 106, Completed Construction-Not Unitized, to FERC account 101, Utility Plant in Service. The transfer of non-utility costs is within FERC account 121, Non-Utility Property using sub accounts; from FERC account 12140, Non-Utility Construction Work in Progress, to FERC account 12112, Non-Utility Completed

Construction-Not Unitized, to FERC account 12111, Non-Utility Plant in Service-Unitized.

Indus PassPort Integrated Supply Chain/Work Management/Accounts Payable System

The Supply Chain/Work Management components are used for inventory and work management processes by the Utilities Group business area for distribution and transmission work. This system is used to maintain inventory records by legal entity and bill materials to operation and maintenance jobs or capital jobs. In addition, the system is used as a work management tool by the Utilities Group business area. The system is also used to process and pay invoices of NSPM.

Maximo System

The Maximo system is an inventory and work management system used by the Energy Supply business area across the operating companies. This system is used to maintain inventory records by legal entity and bill materials to operation and maintenance jobs or capital jobs. In addition, the system is used as a work management tool by the Energy Supply business area.

- The second basic group of transactions is where costs are measured by applying internal billing rates to a unit of measure or allocation within a process, and charging those costs to a legal entity, business area and regulated or nonregulated business activities. Transactions from Labor Distribution, Transportation Distribution and Information Technology are some of the major processes that fall within this category. Each of these distribution processes may have one or more internal billing rates to charge costs to internal users. Individual transactions are generated within any one of these distribution processes to charge costs to the regulated services and nonregulated business activities within an operating company or affiliate. For example, labor distribution charges can be directly assigned to the nonregulated JDE accounts for HomeSmart within NSPM and linked directly to FERC account 417.1, Expenses from Nonutility Operations.

  The following processes are described in greater detail later in this section.

  - Labor Distribution
  - Labor Overheads
  - Aviation Distribution
  - Stores/Warehouse Overhead
  - Purchasing Overhead
  - Transportation Distribution
  - Information Technology
  - Accounts Payable
  - Shared Assets Distribution
  - Facilities Distribution
  - Money Pool
  - Customer Billing

JDE GENERAL LEDGER PROCESSING (Addendum A, Flowchart Item 2)

Journal entries to record monthly transactions, such as interest accruals, amortizations, cash transactions, receivables setup, etc., are entered directly into JDE using the JDE journal entry input screens. These journal entries also include the journal entries to record overheads on nonregulated business activities (see Section VIII).

All of the transactions from the above processes are gathered together in JDE. Once all the transactions are recorded in JDE there are multiple processing steps within JDE, including Service Billings and Utility Allocations. These steps specifically affect regulated services and nonregulated business activities and are detailed separately on the following pages.

SERVICE BILLING (Addendum A, Flowchart Item 3)

The Service Billing function within JDE is the accounting process that is used primarily to bill the operating companies and affiliates for Service Company charges. The process is also used to bill charges from one operating company or affiliate to another operating company or affiliate and from one business area to another business area within the same legal entity.

The Service Billing function bills the Service Company direct charges and indirect allocations from the Service Company legal entity to the operating companies or affiliates. As discussed earlier in this document, the indirect allocation methods have been approved. All labor billed includes labor overheads. Whenever possible, costs related to the nonregulated business activities within an operating company or affiliate are directly charged to JDE accounts, which are linked directly to the 417 FERC accounts.

The Service Billing function may also include transactions billed out of the feeder systems, transactions billed between affiliates and transactions billed within an affiliate. For example, transactions billed from NSPM to PSCo for emergency work would flow through Service Billing.

CLEARING ACCOUNTS (Addendum A, Flowchart Item 4)

The clearing account process is being noted in this section of the CAAM because it uses the functionality of the allocation process within JDE to move the net of all expenditures and other clearings recorded on the income statement to the balance sheet for processes such as labor overheads.

ALLOCATING WORK ORDERS (Addendum A, Flowchart Item 5)

The Allocating Work Order functionality is a feature developed as part of JDE that is currently used by NSPM to allocate certain IT costs to the appropriate FERC accounts, such as Maximo O&M costs to production FERC accounts.

UTILITY ALLOCATIONS (Addendum A, Flowchart Item 6)

NSPM's costs are directly assigned or allocated to electric, gas or nonregulated business activities whenever possible or charged as common and allocated to the electric and gas utilities using Utility Allocations. Common utility costs are grouped into two categories: (1) O&M utility allocations and (2) rate base and non-O&M utility allocations. The O&M utility allocations are done monthly within the JDE system and are explained below. A study is performed annually and for rate case filing purposes to identify all rate base and non-O&M costs that are common among the utility operations of NSPM and these costs are allocated among the utilities according to the allocations described in Section VII.

NONREGULATED BUSINESS ACTIVITY ALLOCATIONS (Addendum A, Flowchart Item 7)

In addition to the costs directly assigned to the nonregulated business activities from the Service Company and within the NSPM operating company, the nonregulated business activities are charged with a labor related overhead and an allocation of corporation costs. See Section VIII for additional information related to nonregulated business activities.

JURISDICTIONAL ALLOCATIONS (Addendum A, Item 8)

All costs that can be directly assigned or allocated to the electric or gas utility operations or to the nonregulated business activities are appropriately accounted for in the books and records of NSPM before jurisdictional allocations occur. A study is performed annually, and for rate case filing purposes, to identify all rate base and non-O&M costs that are common among the jurisdictions of NSPM (Minnesota, North Dakota, and South Dakota) and these costs are allocated among the jurisdictions according to the allocations described in Section IX.

Service:	**LABOR DISTRIBUTION**
Description:	Wages and salaries of employees engaged in work on behalf of regulated services and nonregulated activities are assigned or allocated based on positive time reporting through the TIME labor distribution system. Positive time reporting requires each employee to report the hours worked for each day using one-sixth of an hour or greater increments, while providing for aggregation of time when appropriate. Under this method, employees' time is reported on the basis of accounting codes related to specific operating utility companies or affiliates and/or functional services.
Provider of Service:	Service Company Operating companies or affiliates
User of Service:	Operating companies or affiliates, including utility operations, jurisdictions, and nonregulated activities within an operating company.
Method of Allocation:	All bi-weekly and semi-monthly employees' labor expenses are recorded by company personnel on time sheets and entered into various time reporting systems, all of which feed into the TIME labor distribution system. The employee submitting the time sheet is responsible for coding the JDE account numbers to charge the appropriate operating companies or affiliates, business function (i.e., capital, operations, maintenance, clearing, purchasing and/or warehousing, etc.) and regulated or nonregulated operations. Time sheets must be completed and delivered to the employee's designated timekeeper by certain cut-off dates established by the Payroll Department. The employee's supervisor or manager is responsible for reviewing and approving all time sheets submitted, and verifying that the employee is using the correct JDE account numbers. The TIME labor distribution system used for bi-weekly employees includes the distribution of actual paid and accrued labor dollars/hours to the JDE account number charged based on the hours worked. Accrual of payroll is to facilitate the recording of labor costs on a calendar month basis. This includes any reversal of the prior month's accrual. The charge of labor dollars for semi-monthly employees to JDE account numbers is based on a distribution of the monthly salary of the employee.

Service: **LABOR OVERHEADS**

Description: Employee labor overhead costs are captured in the following categories:

Benefit employees:

- Non-productive labor costs (vacation, sick, holiday, etc.)
- Pension (401k match, SERP/Deferred Compensation, FAS87, pension consulting)
- Medical (healthcare, FAS106)
- Workers compensation
- Incentives (Incentives are a labor overhead for Service Company, PSCo and SPS. Incentives for NSPM and NSPW employees are charged directly to the 920 FERC accounts).
- Payroll taxes (FICA, FUTA, SUTA)

Non-Benefit employees:

- Payroll taxes (FICA, FUTA, SUTA)

Provider of Service: Service Company
Operating companies or affiliates

User of Service: Operating companies or affiliates, including utility operations, jurisdictions, and nonregulated activities within an operating company.

Method of Allocation: Labor overheads are allocated within a legal entity by calculating a separate loading rate for each cost category identified in the "Description" section above.

For each legal entity and each category, the costs are allocated based on a single-factor formula that is comprised of total forecasted costs for the category divided by total forecasted productive labor costs.

Legal entity specific rates for each category are entered into the TIME labor distribution system and applied to productive labor charges as appropriate for each resource type. Labor loadings applied to labor charges follow the labor charges. For example, Service Company labor overheads follow Service Company labor and NSPM labor overheads follow NSPM labor.

Labor overheads are generally updated on a monthly basis for actuals using the latest forecast information and a year-end true up is made to bring the overhead clearing accounts to zero for the calendar year.

Service:	**AVIATION DISTRIBUTION**
Description:	The Aviation and Travel Services department in the Service Company is responsible for managing and operating the two corporate leased aircraft used by the Xcel Energy system of companies. Costs include: pilot salaries and labor overheads, operation and maintenance costs, lease costs, hangar costs and administrative and general costs associated with managing the Aviation and Travel Services department.
Provider of Service:	Service Company
User of Service:	Service Company, operating companies or affiliates, including utility operations, jurisdictions, and nonregulated activities within an operating company.
Method of Allocation:	Aviation costs are billed out using the corporate governance three-factor formula based on revenues, assets and number of employees. Any spousal use of the aircraft must be approved and is billed to the holding company.

Service:	**STORES/WAREHOUSE OVERHEAD**
Description:	Utilities Group and Corporate - Inventory warehousing costs, including labor, supervision, materials and supplies are allocated through pools specific to the business area as an overhead on materials and supplies as materials and supplies are issued/returned from a storeroom or warehouse. Energy Supply – Costs are direct charged to Station operating and maintenance (O&M) and capital projects (when dedicated capital project support is performed).
Provider of Service:	Service Company Operating companies
User of Service:	Operating companies or affiliates, including utility operations, jurisdictions, and nonregulated activities within an operating company.
Method of Allocation:	Overhead costs for inventory items, including rent; labor, supervision and adjustments are accumulated within the Utilities Group business area. The Energy Supply business area direct charges. Each business area has a separate pool for each operating company and sets an overhead application rate for the year based on projected overhead and materials activity. As materials are issued from the storerooms, the overhead assigned is also allocated to the same account as the materials are charged. During the year as actuals are recorded, the balances in the undistributed stores/warehouse clearing accounts are compared to the materials activity and historical trending and overhead rates are updated as needed to clear the pools.

Service:	**PURCHASING OVERHEAD**
Description:	The Supply Chain organization in the Service Company has the responsibility for distributing the corporate purchasing and contract services costs to the functional area(s) of the operating companies or affiliate along with the cost of the materials and supplies ordered. Purchasing costs are made up of activities such as developing requisitions, contracts and purchase orders to procure materials and services and manage supplier relationships, negotiating complex procurement agreements/contracts for strategic supplier partnerships and service contracts, monitoring supplier performance, and managing purchase records, supplier qualification records and the supplier diversity program. The purchasing function is done in two different areas of the company. Supply Chain uses PassPort for company wide purchases and the Energy Supply business area uses Maximo for production related purchases.
Provider of Service:	Service Company Operating companies
User of Service:	Service Company, operating companies and affiliates, including utility operations, jurisdictions, and nonregulated business activities within an operating company.
Method of Allocation:	Costs are collected in clearing accounts on the Service Company and the operating companies and cleared via an overhead loading. The loading follows the accounting for certain purchases with the offset going to a contra clearing account. For PassPort and Maximo, certain purchases are loaded with the purchasing overhead loading up to a $3,500 cap. The $3,500 cap is calculated based on the value of the purchase order for purchase order payments, the total value of the contract payment authorization or the total value of the invoice for the request for payment. For PassPort, the loading is calculated and a new record is posted to the general ledger as a detail item. For Maximo, the loading is calculated once a month and shows up as a separate summary transaction on the general ledger.

Service:	**TRANSPORTATION DISTRIBUTION**
Description:	The Fleet Services department in the Service Company is responsible for managing the fleet assets owned by the operating companies. Fleet assets are vehicle units that are organized into class categories, which group together vehicles similar in nature. These classes are also grouped on vehicle features and costs of the units. For example, automobiles are classified by compact, mid-sized or intermediate and full size. Each of these classes will have its own unique individual fixed rate to bill users. The Transportation Distribution system bills internal functional areas of operating companies and affiliates for the cost of using vehicles or associated equipment. It distributes the operating costs related to vehicle units using usage rates based on the type of unit. Costs included in the calculation of the monthly billing rate are: depreciation, lease costs, property taxes, material and labor costs for maintenance, fuel, labor loadings, and an overhead that includes labor, facilities, utilities, computer, phone and office supplies.
Provider of Service:	Service Company Operating companies
User of Service:	Service Company, operating companies or affiliates, including utility operations, jurisdictions and nonregulated business activities within an operating company.
Method of Allocation:	The Transportation Distribution system bills each user for units assigned based on the monthly rates calculated by class category. Each month a validation report is reviewed to ensure all costs are billed and any invalid accounts are reviewed and corrected.

Service:	**INFORMATION TECHNOLOGY**
Description:	The Business Systems organization in the Service Company is responsible for managing the corporate Information Technology ("IT") assets and services of Xcel Energy. Business Systems bills out O&M and capital costs related to Xcel Energy's corporate IT equipment and services incurred internally, as well as costs incurred through external sources, primarily IBM. Costs include system O&M, desktop services, phone service, servers, infrastructure costs, software, software licensing, system design and implementation, labor and labor overheads, etc.
Provider of Service:	Service Company
User of Service:	Service Company, operating companies or affiliates, including utility operations, jurisdictions and nonregulated activities within an operating company.
Method of Allocation:	IT costs are charged through several different methods. Costs are charged directly to the operating companies, affiliates, jurisdictions or nonregulated activities on the invoice, timesheet, expense report or other source document to the company(ies) benefiting from the service whenever possible. If costs can not be charged directly to an operating company, affiliate, jurisdiction or nonregulated activity, the costs are charged to a Service Company indirect allocation workorder that will assign the costs using a cost causative method to the companies benefiting from the system application or service. For costs that can be identified as benefiting a particular service function, those services would be charged to a Service Company indirect allocation workorder using the approved allocation factor for that business area.

Service: **ACCOUNTS PAYABLE**

Description: The Accounts Payable Department, in the Service Company, processes several types of documents for payment on behalf of the operating companies and affiliates. Accounts Payable uses PassPort and Concur to process invoice payments associated with purchase orders, contracts, requests for payment (non-purchase orders, non-contract invoices) and employee payments, including per diem charges, suggestion system award payments and employee expense reimbursements.

The charges for goods, materials and services, which post directly to the general ledger of each operating company and affiliate, differ for each type of document.

Provider of Service: Service Company

User of Service: Service Company, operating companies and affiliates, including utility operations, jurisdictions, and nonregulated activities within an operating company.

Method of Allocation: Within each operating company and affiliate, charges are directly assigned whenever possible. Charges may be distributed to multiple business functions or business areas based on the accounting code(s) on each document. If necessary, costs may be allocated using any surrogate measure that has a logical or observable correlation to the charges in the quantities sold, the services that caused the cost to be incurred or that benefited from the cost. The following are examples of some of the logical or observable correlations used to allocate costs contained on Accounts Payable documents:

- Quantity (units, count, etc.)
- Measurement or size (length, space, columnar inch, etc.)
- Volume (barrels, gallons, liters, etc.)
- Weight (ounce, pound, ton, etc.)
- Hours (hours of professional or contract services)
- Labor dollars (charge is in the same proportion as the labor hours of the department)
- Number of customers, meters, employees, etc.
- Revenue dollars
- Plant in service
- Square footage

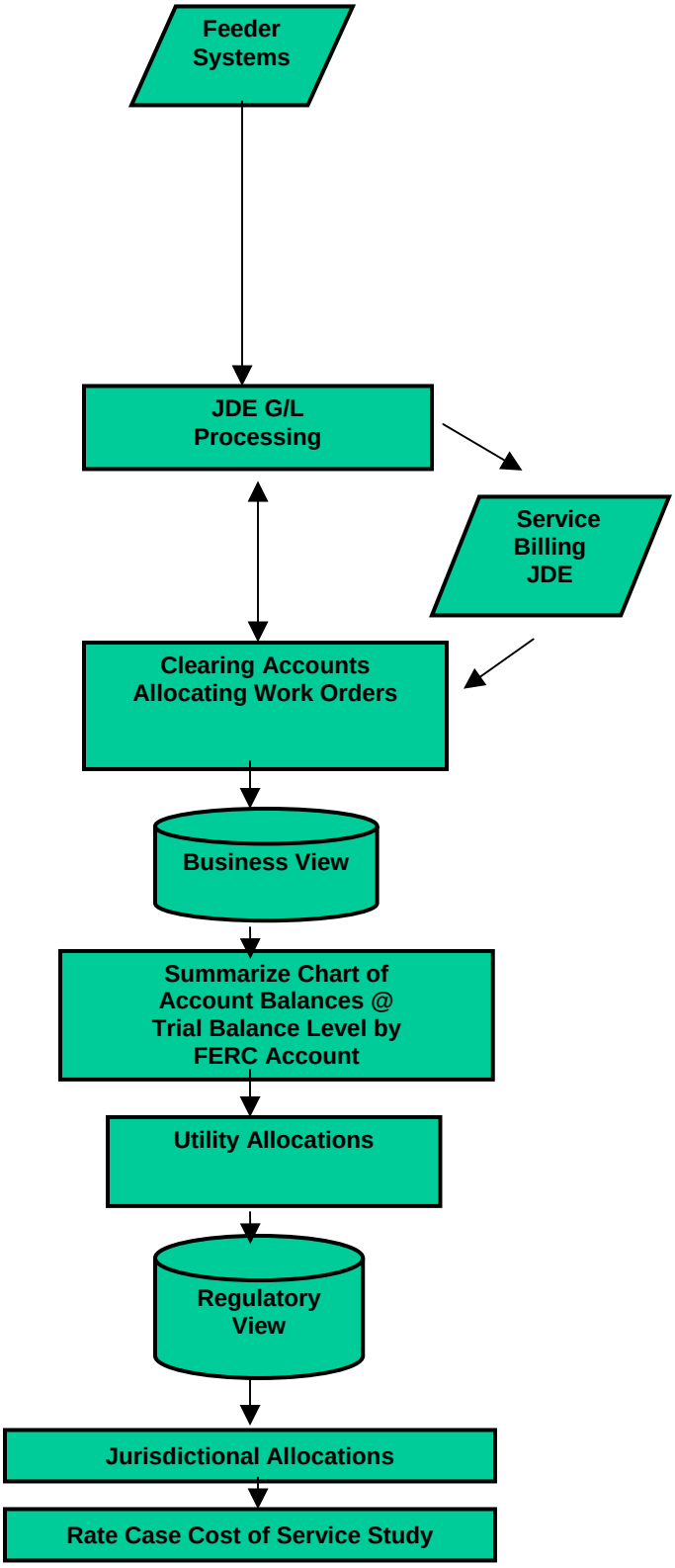
Service:	**SHARED ASSETS DISTRIBUTION**
Description:	Shared assets are defined as capitalized assets that are owned by one legal entity but are used for the benefit of multiple entities. This would include structures and improvements, office furniture and equipment, computer and communication equipment and some software systems that are used by Service Company employees in the performance of their jobs.
Provider of Service:	Operating companies or affiliates
User of Service:	Service Company, operating companies and affiliates
Method of Allocation:	All IT related shared assets are billed through the Service Company and charged to a Service Company indirect workorder that will assign the costs using a cost causative method to the companies benefiting from the system application or service. Facilities related shared assets are billed through the Service Company using the Facilities Allocation process explained further on page V-15.

Service:	**FACILITIES DISTRIBUTION**
Description:	Facilities costs, which include owned and leased buildings, operation and maintenance costs for the leased and owned buildings (unless covered by the rent or lease agreement), as well as internal administrative and general labor and non-labor costs are allocated to the functional area(s) of operating companies and other affiliates who benefit from the use of these facilities. The Property Services department is responsible for the owned and leased facility records. Utility owned facilities have depreciation costs with an allowed rate of return for the assets owned, the costs of which are charged directly to depreciation expense.
Provider of Service:	Service Company Operating Companies
User of Service:	Service Company, operating companies and affiliates
Method of Allocation:	Costs are accumulated in the facilities clearing accounts and then allocated to functional FERC rent accounts based on the most recent quarter's labor charges.

Service:	**MONEY POOL**
Description:	Through the Utility Money Pool, temporary surplus funds of Xcel Energy Inc. and the operating companies are available for short-term loans to other operating companies with cash needs.
Provider of Service:	Service Company
User of Service:	Operating companies
Method of Allocation:	An operating company can borrow from, and make loans to, the Utility Money Pool, which is administered at cost by the Service Company. In addition, the holding company can deposit surplus funds into the utility money pool. The holding company can be repaid for funds deposited, but cannot borrow from the utility money pool. Interest income or expense is charged or credited, as appropriate, to the Utility Money Pool participants. All charges are directly billed to the appropriate operating company. NSPM petitioned for and received approval on the use of a utility money pool in Docket No. AI-04-100.

Service:	**CUSTOMER BILLING**
Description:	NSPM bills customers for electric, gas, propane and miscellaneous nonregulated activities through the customer billing system.
Provider of Service:	Operating companies
User of Service:	Operating companies, including utility operations, jurisdictions, and nonregulated activities.
Method of Allocation:	Costs related to customer billing are direct charged to specific operating companies whenever possible. When costs cannot be directly assigned to a specific operating company, they are allocated based on the number of customers. Nonregulated activities that use the customer billing system are allocated a customer accounting overhead based on revenue dollars.

ADDENDUM A – PROCESS FLOWCHART



Item 1 – Feeder Systems

- JDE Journal Entry Module
  Non-regulated Business Activity Alloc.
- PowerPlant System
- PassPort System
- Maximo System
- Labor Distribution
- Labor Overheads
- Aviation Distribution
- Stores/Warehouse Overhead
- Purchasing Overhead
- Transportation Distribution
- Information Technology
- Accounts Payable
- Shared Assets Distribution
- Facilities Distribution
- Money Pool
- Customer Billing

Item 2 – JDE General Ledger Processing

Item 3 – Service Billing

Item 4 – Clearing Accounts
Item 5 – Allocating Work Orders

Item 6 – Utility Allocations

Item 7 – NonRegulated Business Activity Allocations

Item 8 – Jurisdictional Allocations

VI. ALLOCATING WORKORDERS

OVERVIEW

NSPM's costs are directly assigned or allocated to electric, gas or nonregulated activities whenever possible. An allocating workorder is used to allocate costs to specific FERC accounts based on predefined allocation factors.

ALLOCATIONS

NSPM currently has four allocating workorders. These are as follows:

Compass/Maximo
This workorder is being used to allocate costs associated with the Business Systems' O&M costs for the Energy Supply Maximo system. These costs include information technology application, development and maintenance costs, or system support costs. The allocator is based on the number of Maximo system users. The allocator used in the current year is based on the previous years' actual number of users. The allocation was developed to distribute these costs to production FERC accounts as noted below.

Workorder Number	Allocation Method	Basis for Allocation Selection
12001	Maximo system users	Maximo system users is a reasonable methodology because the operation and maintenance costs associated with the system have a cost causative relationship with the number of users who have access to the system.

The operation and maintenance cost of the Maximo system are allocated to the following FERC accounts:

FERC account 506, Miscellaneous Steam Power Expenses
FERC account 524, Miscellaneous Nuclear Power Expenses
FERC account 539, Miscellaneous Hydraulic Power Generation Expenses
FERC account 549, Miscellaneous Other Power Generation Expenses

Electric Management System (EMS, also known as Electric SCADA)

This workorder is being used to allocate costs associated with Business Systems' O&M costs for the electric SCADA system. The allocator is based on the number of remote terminal units (RTUs). The allocator used in the current year is based on the previous years' actual number of RTUs. The allocation was developed to distribute these costs among production, transmission and distribution FERC accounts as noted below.

Workorder Number	Allocation Method	Basis for Allocation Selection
12004	Number of RTUs	Number of RTUs is a reasonable methodology because the RTUs transmit the data used by the SCADA system.

The operation and maintenance costs of the EMS are allocated to the following FERC accounts:

FERC account 556, System Control and Load Dispatching (Production)
FERC account 561.2, Load Dispatching-Monitor/Operate Transmission System
FERC account 581, Load Dispatching (Distribution)

Gas SCADA

This workorder is being used to allocate costs associated with Business Systems' O&M costs for the gas SCADA system. The allocator is based on gas transmission and distribution plant. The allocation was developed to distribute these costs among transmission and distribution FERC accounts as noted below.

Workorder Number	Allocation Method	Basis for Allocation Selection
12008	Gas Transmission & Distribution Plant	Gas transmission and distribution plant is a reasonable methodology because this system is used to communicate between the control rooms at the plants, transmission and distribution areas.

The operation and maintenance costs of the gas SCADA system are allocated to the following FERC accounts:

FERC account 851, System Control and Load Dispatching (Transmission)
FERC account 871, Distribution Load Dispatching (Gas)

Network Services

This workorder is being used to allocate circuit costs for service centers that primarily benefit electric and gas distribution. The allocator is based on total distribution plant. The allocation was developed to distribute these costs between electric and gas distribution FERC accounts as noted below.

Workorder Number	Allocation Method	Basis for Allocation Selection
12011	Distribution Plant	Distribution plant is a reasonable methodology because these locations primarily benefit electric and gas distribution.

These circuit costs are allocated to the following FERC accounts:

FERC account 588, Miscellaneous Distribution Expenses (Electric)
FERC account 880, Other Expenses (Gas Distribution)

VII. UTILITY ALLOCATIONS

OVERVIEW

NSPM's costs are directly assigned or allocated to electric, gas or nonregulated activities whenever possible or charged as common and allocated to the electric and gas utilities using utility allocations. Common utility costs are grouped into two categories: (1) O&M utility allocations and (2) rate base and non-O&M utility allocations. The O&M utility allocations are processed monthly within the JDE system and are explained below. The common rate base and non-O&M utility allocations are done as part of an annual study and for rate case filing purposes and are also explained below.

O&M UTILITY ALLOCATIONS

Introduction

Common O&M utility allocations are applied to common costs that are recorded in A&G (FERC accounts 920-935) and customer accounting and customer information and sales (FERC accounts 901-917). Table A in this section lists the NSPM allocation methodology applied to each FERC account or range of FERC accounts.

Methodology

NSPM uses the following methods to allocate common O&M costs. These methods were developed to achieve the most cost-causative relationship that each FERC account or range of FERC accounts has with electric and gas utility operations. The allocators used are as follows:

Customer Allocator
The customer allocator is used to allocate common utility costs in FERC accounts 901-917 among electric and gas operations. The allocation is based on the customer bill counts for the electric and gas utilities. The allocator used in the current year is developed based on the previous years' actual customer bill count.

Three-Factor Allocator
The Three-Factor Allocator is used to allocate common utility costs in FERC account ranges 920-924 and 927-935 among electric and gas utilities. The allocation is based on the weighted average of operating revenue, plant in service, and supervised O&M. The allocator used in the current year is developed based on the previous years' actual operating revenue, plant in service and supervised O&M.

Labor Allocator
The Labor Allocator is used to allocate common utility costs in FERC accounts 925-926 to the electric and gas departments. The allocation is based on operating labor for the electric and gas utilities. The allocator used in the current year is developed based on the previous years' actual operating labor.

RATE BASE AND NON-O&M UTILITY ALLOCATIONS

Introduction

A study is performed annually and for rate case filing purposes to identify all rate base and non-O&M costs that are common among the utility operations of NSPM in order to allocate them to the electric and gas utilities.

Methodology

NSPM uses the following methodology to allocate common rate base and non-O&M costs. These allocation factors were developed to achieve the most cost-causative methodology based on the pool of costs being allocated. Table B in this section lists the methodology applied to specific pools of costs. The allocators used are as follows:

Three-Factor Allocator
The allocation is based on the weighted average of operating revenue, plant in service, and supervised O&M. The allocator used in the current year is developed based on the previous years' actual operating revenue, plant in service and supervised O&M.

Computer Software Study
A composite allocator is used to allocate common computer software rate base (plant) and non-O&M (plant related) costs among electric and gas utilities. Software assets and related costs are presented in a cost of service study using a single amount. A study of all computer software is done to determine how each individual software asset that is part of the single amount should be allocated. All individual allocations are summarized to create a single composite allocation that is then applied to the summarized computer software plant and plant related costs.

Transportation Study
Individual allocators are used to allocate common transportation rate base (plant) and non-O&M (plant related) costs among electric and gas utilities. Transportation assets are reviewed to determine where vehicles are used and allocation factors are developed.

Table A – O&M Utility Allocations

FERC Account	Allocation Method	Basis for Allocation Selection
901-917	Customer Allocator	Customer bill counts are a reasonable methodology to use to allocate common customer accounting and customer information and sales costs recorded in FERC accounts 901-917 because these costs are customer related costs, e.g., credit and collection, customer accounting, bad debt, etc.
920-924	Three-factor Allocator	A three-factor allocation is reasonable because there is no single allocator that could provide a cost causative link. A three-factor allocator that measures three distinct aspects of the Company and results in an overall fair assignment of costs to the electric and gas utilities is used and is based on equally weighting operating revenue, plant in service and supervised O&M.
925-926	Labor Allocator	A labor allocation is reasonable because the costs recorded in these accounts are injuries and damages and pension and benefit costs. These costs have a cost causative relationship with labor.
927-935	Three-factor Allocator	A three-factor allocation is reasonable because there is no single allocator that could provide a cost causative link. A three-factor allocator that measures three distinct aspects of the Company and results in an overall fair assignment of costs to the electric and gas utilities is used and is based on equally weighting operating revenue, plant in service and supervised O&M.

Table B – Rate Base and Non-O&M Utility Allocations

Utility	**Functional Class ID**	**Major Location**	**Description**	**Allocation Methodology**
Electric				Direct Assignment
Gas				Direct Assignment
Common	26		Computer Software	Computer Software Study
Common	31		General Furniture & Equipment	Three-Factor Allocation
Common	31	1004	Electric Distribution – Mass – MN	Direct Assignment to Electric
Common	31	1005	Electric Distribution – ND	Direct Assignment to Electric
Common	31	1007	Electric Distribution – MN	Direct Assignment to Electric
Common	31	1011	Electric Distribution Vaults	Direct Assignment to Electric
Common	31	1017	Allen S King Plant	Direct Assignment to Electric
Common	31	1019	Electric Transmission Line – MN	Direct Assignment to Electric
Common	31	1022	Electric Transmission Substation – MN	Direct Assignment to Electric
Common	31	1025	Gas Distribution – MN	Direct Assignment to Gas
Common	31	1033	General Tools and Other Equipment	Three-Factor Allocation
Common	31	1040	Office, Service & Other Bldgs – MN	Three-Factor Allocation
Common	31	1041	Office, Service & Other Bldgs – ND	Three-Factor Allocation
Common	31	1042	Office, Service & Other Bldgs – SD	Three-Factor Allocation
Common	31	1043	Software – Minnesota	Three-Factor Allocation
Common	31	1044	Transportation Equipment – MN	Transportation Study
Common	31	1045	Transportation Equipment – MN	Transportation Study
Common	31	1046	Transportation Equipment – SD	Transportation Study
Common	31	1053	Prairie Island	Direct Assignment to Electric
Common	31	1058	Inver Hills – Prod Other	Direct Assignment to Electric
Common	31	1066	Big Oaks Rec Area	Three-Factor Allocation
Common	31	1067	Black Dog	Direct Assignment to Electric
Common	31	1068	High Bridge	Direct Assignment to Electric
Common	31	1071	Riverside	Direct Assignment to Electric
Common	31	1072	Sherco	Direct Assignment to Electric
Common	31	1079	Gas Prod – Wescott – MN	Direct Assignment to Gas
Common	31	1102	General Tools and Other Equipment	Three-Factor Allocation
Common	31	3545312	General Plant – MN	Three-Factor Allocation
Common	31	3545317	General Plant – SD	Three-Factor Allocation
Common	31	3545319	General Plant – ND	Three-Factor Allocation

VIII. NONREGULATED ACTIVITY ALLOCATIONS

INTRODUCTION

The purpose of this section is to detail the methods of assigning and allocating costs between the regulated services and the nonregulated activities of NSPM.

NSPM follows the same approach for all types of costs for its fully distributed costing method.

The Company follows these hierarchical cost assignment and allocation principles:

1. Tariffed rate shall be used to value tariffed services provided to nonregulated activities.
2. Costs shall be directly assigned to either regulated or nonregulated activities whenever possible.
3. Costs that cannot be directly assigned are common costs, which shall be grouped into homogenous cost categories. Each cost category shall be allocated based on direct analysis of the origin of the costs whenever possible. If direct analysis is not possible, common costs shall be allocated based upon an indirect cost-causation.
4. Whenever neither direct nor indirect measures of cost causation can be found, the cost category shall be allocated based upon a general allocator.

This process accomplishes the proper separation of costs between NSPM's regulated utility business and nonregulated activities. Each activity that could be considered as being outside of NSPM's core electric and gas business is reviewed for regulated/nonregulated treatment. If the activity is identified as nonregulated operations, the nonregulated cost allocation process is followed.

There are limited situations where an activity that would be in the public interest could not be pursued if a fully distributed costing approach was followed. In such circumstances, NSPM has filed, and will continue to file, any deviation from a fully distributed costing process on a project-specific basis.

Evaluation Process

NSPM's approach to fully distributed costing includes the following steps of analysis: business profile, direct charging, labor overheads, cost causation allocation, labor related overhead, and corporate residual allocation. Non-NSPM affiliates are charged a working capital fee as discussed in Section IV.

Business Profile
The allocation process begins by reviewing each nonregulated activity for the services NSPM's utility business will be providing to the nonregulated activity.

Direct Charging (Addresses Principle #2)
Cross charges between NSPM service providers and nonregulated activities are reviewed with the business. Any process, project or service performed for the direct benefit of a nonregulated activity is directly charged to the nonregulated activity

Cost Causation Allocations (Addresses Principle #3)
If no direct charge has been established for a service, a cost causation allocation is developed. Direct charging is preferred, however, if a service is provided and cannot be direct charged, the cost is allocated to the nonregulated business. An example of this would be, when a service is being provided, but it is at such a minimal level that it would be very difficult or cost prohibitive to charge on a direct basis.

Overhead Costs (Addresses Principle #4)
The overhead allocation factors capture indirect costs associated with providing services to nonregulated activities.

NSPM currently uses a labor overhead rate that was developed based on employee related expenses (such as employee programs, employee relations, training, employment, compensation and benefits program development costs, diversity, safety), office equipment needs, general office facility costs, and supervision of the service provider. The labor overhead is applied to fully loaded labor. The labor related overhead is applied to nonregulated services wholly contained within NSPM and affiliate transactions.

For nonregulated services wholly contained within NSPM, a portion of NSPM's corporation costs are allocated based on a two-factor formula that takes into consideration the relative size of the nonregulated business by using number of employees and revenues.

Working Capital Fee (Addresses Principle #3)
The working capital fee is applied to non-NSPM company affiliates. The fee is based on the current Prime Rate and is reviewed and updated quarterly. This fee is to compensate the regulated business for the cost of working capital used by the nonregulated affiliates.

IX. JURISDICTIONAL ALLOCATIONS

INTRODUCTION

NSPM's methods for assigning and allocating common O&M costs, plant and plant related, and other rate base investment to jurisdiction is intended to distribute costs in a manner that most closely reflects the benefit received from the expenditure. Accurately stating the assigned and allocated costs of the Company, as they relate to causation of the costs, is a fundamental part of creating a fair distribution of those costs to jurisdiction.

NSPM uses three methods to assign and allocate O&M expense, plant and plant related, and other rate base investment to jurisdiction:

1. direct assignment based on FERC account and location,
2. allocation based on cost causation, and
3. allocation based on a default allocator.

Determination of the assignment and allocation of costs to jurisdiction is an annual process designed to identify the jurisdiction that receives the benefit from the cost or investment. During the review, the three methods stated above are used to ensure that costs are assigned or allocated to the appropriate jurisdiction. It is NSPM's primary goal to direct assign or allocate based on cost causation as often as possible, and allocate based on a default allocator as little as possible.

The first step in assigning costs and investments to a jurisdiction is to identify costs that can be directly assigned to a jurisdiction (Minnesota, North Dakota or South Dakota), based on the location where work is being performed. For O&M expenses, the JDE account has a location code and a FERC account associated with it and these are used to determine the appropriate jurisdiction for assigning costs. The individual business areas determine and maintain the appropriate values for these codes based on the type of work being performed and which customers benefit from the work. For plant investment data, the PowerPlant system's functional class ID, state code and the function that it is serving are used to determine the appropriate jurisdictions to assign costs for plant, plant related and other rate base costs.

Direct Assignment Based on FERC Account and Location

The first method NSPM uses is to direct assign costs whenever possible. For example, the distribution portion of an electric substation (costs assigned to a Distribution FERC account function) that is located in the Sioux Falls Metro Area can be directly assigned to the State of South Dakota jurisdiction based on location, it directly serves only customers inSouth Dakota. In addition, all gas transmission and distribution property is directly assigned to the jurisdiction based on where the property is located as defined within the PowerPlant system. The Capital Asset Accounting organization maintains the capitalized property data.

An O&M expense example of direct assignment would be either electric or gas special meter reading done in the Sioux Falls Metro Area (assigned to a Distribution FERC account). The meters read are for customers in the State of South Dakota, therefore, the related costs are directly assigned to South Dakota jurisdiction.

Also, regulatory expenses specific to a jurisdiction are directly assigned to that jurisdiction. For example, indirect assessments charged to NSPM from the Office of Energy Securities ("OES") and the Minnesota Public Utilities Commission are directly assigned to the Minnesota jurisdiction.

Allocation Based on Cost Causal Relationship

The second method NSPM uses is to identify all investments and costs that could be assigned to jurisdiction based on a causal relationship, select the most cost causal allocation method and allocate the costs accordingly. Examples of electric and gas analyses are as follows.

Electric

NSPM operates an integrated electric transmission system that transports electricity to NSPM's distribution system which in turn, supplies electricity to all of NSPM's customers. The transmission system is built to meet the demand created by serving its customers, and therefore, NSPM uses a coincident peak transmission demand taken from twelve consecutive months that constitute a calendar year method, to allocate transmission investment to all of its jurisdictions. All of the expense and plant investment, assigned to Transmission function, exists to support NSPM's infrastructure, is fixed in nature and is assigned to jurisdiction based on transmission demand.

The cost causation allocators used for electric production expense or plant investment is a twelve-month coincident peak demand or energy, depending on the type of expense or plant investment. If the expense is variable in nature, energy is used to make the assignment to jurisdiction. If it is determined that the expense or plant investment exists to support NSPM's infrastructure and is fixed in nature, the demand allocator is used to make the assignment to jurisdiction.

Gas

From a supply standpoint, NSPM operates its gas distribution system as a single unit. NSPM purchases natural gas, pipeline delivery capacity and transmission of gas purchased to meet its customers' requirements on a system-wide basis. In addition, NSPM also operates propane-air ("LPG") peak shaving facilities and liquefied natural gas ("LNG") peaking facilities to meet firm demand in excess of natural gas daily pipeline entitlement for the benefit of the entire NSPM system. Because these types of costs support the entire operating company system, it is not possible to direct assign them to a specific jurisdiction. In this example, the O&M production and storage functions are allocated to jurisdiction based on the type of expense within the FERC

account. The transmission function is allocated based on the Gas Load Dispatch allocator that is a combination of the design day firm demand allocator and total annual throughput. For plant investment, all production and storage facilities are allocated based on the gas design day allocator related to the design day firm demand.

Electric & Gas

Costs and investment in support of NSPM's Distribution, Customer Accounting, and Customer Information & Sales are more easily identified by state based on the location where the work is being performed, therefore they can be directly assigned to jurisdiction using customers as a basis. NSPM has service territory that borders on North Dakota and South Dakota. In cases where services are provided and serve all regional customers, a regional allocator is developed which reflects the number of customers served in Minnesota and North Dakota or Minnesota and South Dakota, depending on the region. This represents a causal relationship between costs incurred in those regions and the assignment of costs to jurisdiction. Locating services performed in the Fargo area is an example of these types of costs. Locating services are performed for customers on both sides of the border and are therefore allocated to jurisdiction based on the number of year-end average customers in the North Dakota Region, which includes Fargo, Moorhead Grand Forks, East Grand Forks and Minot.

Allocation Based on a Default Allocator

Costs and investment that can not be assigned to jurisdiction using either direct assignment or allocation based on cost causation as described above are allocated to jurisdiction using a default allocator.

Common and General Plant Investment

The default allocator for plant investment is determined by the function that it serves. For production investment, a twelve-month coincident peak demand allocator is used to allocate costs to jurisdiction. For transmission investment, a twelve-month coincident peak transmission demand allocator is used to allocate costs to jurisdiction. For distribution investment, the number of year-end average customers is used to allocate costs to jurisdiction.

A default allocator for plant investment is determined by the function that it services. For general and common plant, a year-end average customer allocator is used as the default. If the investment function has been determined to be gas production related, then the default jurisdictional allocator used in the production allocator is gas design day.

Administrative and General Expenses

When assigning or allocating A&G expenses to jurisdiction, the business area associated with the JDE account is an additional piece of information used in determining the jurisdiction(s) benefiting from the expenditure. A&G costs for business areas that support the electric production portion of the business, Energy

Supply and Nuclear Generation, are allocated to jurisdiction using the twelve-month coincident peak demand allocator. Any Utilities Group business area (excluding transmission) A&G costs that cannot be directly assigned to jurisdictions based on the location code are allocated to jurisdiction using the twelve-month end-of-year average customer allocator.

Electric A&G expenses for the remaining business areas that support a corporate function are first allocated to become designated as additional A&G costs of production, transmission, or customers by using a equally weighted two-factor allocator based on electric plant in service and electric O&M expense (excluding A&G). These costs are then allocated to jurisdiction based on the O&M default for that regulatory business unit. The electric production portion is allocated to jurisdiction using a twelve-month coincident peak demand allocator; the transmission portion using the transmission demand allocator, and the customer portion is allocated using twelve-month end-of-year average customers.

Gas A&G expenses are allocated to jurisdiction using the appropriate customer allocation as a default allocator, based on the JDE account's location code.

A more detailed description of each allocation type and method of allocation, including examples of why the allocation was chosen to assign costs to jurisdiction, is included below under "Allocation Methods".

Table C in this section lists the methodology applied to specific pools of costs.

ALLOCATION METHODS

GAS & ELECTRIC

Direct Assigned
This allocation type is used to assign all expenses that are determined to be directly assignable to a jurisdiction (Minnesota, North Dakota or South Dakota).

Direct Assigned: State of Minnesota
This allocation type is used for all expenses that are determined to be for the direct benefit or in direct support of the State of Minnesota jurisdiction. The types of costs direct assigned include: direct and indirect assessments related to one of Minnesota's regulatory bodies, legal expenses in support of Minnesota, economic development activities in the Twin Cities metro area, facilities expenses in support of the Distribution business in the Twin Cities metro area, delivery system operation and maintenance costs in the Metro Area, Northwest and Southeast Regions and Automated Energy System ("AES") expenses.

Direct Assigned: State of North Dakota
This allocation type is used for all expenses that are determined to be for the direct benefit or in direct support of the State of North Dakota jurisdiction. The types of costs direct assigned include: regulatory development activities based out of the North Dakota regional offices, direct and indirect assessments related to the North Dakota regulatory bodies, legal expenses in support of North Dakota, economic development activities performed directly for North Dakota and work performed in the Minot area for the sole benefit of North Dakota customers.

Direct Assigned: State of South Dakota
This allocation type is used for all expenses that are determined to be for the direct benefit or in direct support of the State of South Dakota jurisdiction. The types of costs direct assigned include: direct and indirect assessments related to the South Dakota regulatory bodies, legal expenses in support of South Dakota, economic development activities performed directly for South Dakota.

Customers - Year-End Average - (Electric or Gas)
This allocation type is used to assign expenses where there is a cost causative relationship between the number of NSPM customers in a particular area and the service provided. This allocator is based on year-end average customer by utility.

Customers Year-End Average
NSPM - MN/ND/SD
This allocation type is used to assign costs to all of NSPM's jurisdictions (Minnesota, North Dakota and South Dakota) when the work performed benefits all of the company's customers equally. This is the default allocator that is used for the Electric and Gas Distribution, Customer Accounting, Customer Information, Sales and Administrative & General FERC accounts where the general ledger account JDE business unit category code 6 (location code) designates support of NSPM company.

This is also the gas utility A&G corporate function default allocator type. The electric utility A&G expenses that support a corporate function are first designated as additional A&G costs of production, transmission, or customers by using an equally weighted two-factor allocator based on electric plant in service and electric O&M expense (excluding A&G). The portion of these A&G costs that are designated as supporting customers are then allocated to jurisdiction using this electric customer allocator.

Customers Year End Average
Minnesota/North Dakota
This allocation type is used to assign costs to both the North Dakota and Minnesota jurisdictions based on customers in the entire North Dakota Region. This includes customers in Fargo, Moorhead, Grand Forks, East Grand Forks and Minot service areas. This method is the default allocator for O&M expenses associated with general ledger accounts where the JDE business unit category code 6 (location code) designates support for Minnesota/North Dakota.

Customers Year End Average
Minnesota/South Dakota
This allocation type is used to assign costs to both the South Dakota and Minnesota jurisdictions based on customers in the entire South Dakota Region. This method is the default allocator for O&M expenses associated with general ledger accounts where the JDE business unit category code 6 (location code) designates support for Minnesota/South Dakota.

Study Jurisdictional Transmission
This allocation is used for all plant investment that is determined to be for the direct benefit or in direct support of Transmission. It is a historical allocator based on the plant investment that has been direct assigned to jurisdiction based on its state location.

Study Jurisdictional Distribution
This allocation is used for all plant investment that is determined to be for the direct benefit or in direct support of Distribution. It is a historical allocator based on the plant investment that has been direct assigned to jurisdiction based on its state location.

ELECTRIC UTILTIY ONLY

Energy
Fuel and fuel-related items are assigned to jurisdiction based on the energy allocator because of the direct correlation of customer sales and the level of fuel consumed. These items include all fuel; purchased energy, interchange agreement energy and variable production expenses.

DemandProd (Coincident Peak)
The 12 coincident peak ("CP") demand production allocator is used to assign fixed capacity related expenses, plant and plant related items to jurisdiction. Other expenses allocated to jurisdiction based on demand include: fixed production expenses, purchased power demand expense, interchange agreement demand charges and regulatory expenses not directly related to one of NSPM's jurisdictions.

DemandTran (Coincident Peak)
The 12 CP demand transmission allocator is used to assign Transmission FERC account expense in support of NSPM's jurisdictions.

Two-Factor Allocator (A&G Only)
Expressed as an equally weighted factor based on electric plant in service and electric O&M expense (excluding A&G). These costs are then allocated to jurisdiction based on the O&M default for that JDE Regulatory Business Unit. The production portion is allocated to jurisdiction using a 12 CP demand allocator, the transmission portion using the transmission demand allocator, and the customer portion is allocated using 12-month end-of-year average electric customers.

GAS UTILITY ONLY

Retail Revenues Cost of Gas Recovery - Demand, Commodity and Purchased Gas Adjustment True-up Study
Retail revenues include components for the recovery of costs associated with product and delivery of product to the service area. Such costs include capacity or entitlement costs, pipeline transportation costs, commodity costs and costs of alternative gas (propane-air or liquefied natural gas) supplied during times of firm peak demand. Regulations provide for the automatic adjustment of billing rates for price changes and the annual true-up of the cost of gas incurred. Demand, Commodity and Purchased Gas Adjustment are components of the Retail Revenues Cost of Gas Recovery study. The portion of total NSPM cost of gas included in retail revenues that the Minnesota jurisdiction represents is also applied to total NSPM cost of gas expense accounts to achieve revenue neutrality for revenue requirements consideration.

Design Demand Day
Expressed as a percentage, Design Demand Day is the ratio of the Minnesota jurisdiction firm peak demand volume to the total NSPM firm peak demand volume that could occur on the distribution system on a day considered to be the most severe weather conditions that can be experienced.

Load Dispatch
Expressed as a percentage, Load Dispatch is a combination of the Minnesota jurisdiction Design Demand Day and the Minnesota jurisdiction total Retail sales and Transportation throughput each weighted equally.

Limited Firm and Standby Services Study
Expressed as a percentage, Limited Firm and Standby services, in revenues, is the ratio of Minnesota jurisdiction availability charges and volumetric charges to the total NSPM; in costs, it is the ratio of Minnesota jurisdiction volumetric product costs to the total NSPM program product costs.

Table C

Allocation to Jurisdiction

Selection Criteria *							
CC2 (SBU) SubBU	**Plant Function**	**Functional Class ID / Desc**	**CC6 (LOC)**	**Functional Use**	**Utility**	**JUR**	**Allocation**
Production	Production	1 / Electric Steam Production Plant			Electric	MN/ND/SD	Electric - Demand Prod (Coincident Peak)
Production	Production	2 /Electric Nuclear Production Plant			Electric	MN/ND/SD	Electric - Demand Prod (Coincident Peak)
Production	Production	3 / Electric Hydro Production Plant			Electric	MN/ND/SD	Electric - Demand Prod (Coincident Peak)
Production	Production	4 / Electric Other Production Plant			Electric	MN/ND/SD	Electric - Demand Prod (Coincident Peak)
Production	Production	22 / Nuclear Fuel			Electric	MN/ND/SD	Electric - Demand Prod (Coincident Peak)
Production	Common & General	24 / Electric Intangible Plant			Electric	MN/ND/SD	Electric - Demand Prod (Coincident Peak)
Production	Common & General	26 / Common Intangible Plant			Electric	MN/ND/SD	Electric - Demand Prod (Coincident Peak)
Production	Common & General	29 / Electric General Plant			Electric	MN/ND/SD	Electric - Demand Prod (Coincident Peak)
Production	Common & General	31 / Common General Plant			Electric	MN/ND/SD	Electric - Demand Prod (Coincident Peak)
Production	Production	23 / Decommissioning	FERC MN		Electric	MN/ND/SD	Electric - Demand Prod (Coincident Peak)
Production	Production	23 / Decommissioning	Minnesota		Electric	MN	Direct Assigned - State of Minnesota
Production	Production	23 / Decommissioning	North Dakota		Electric	ND	Direct Assigned - State of North Dakota
Production	Production	23 / Decommissioning	South Dakota		Electric	SD	Direct Assigned - State of South Dakota
Production	Production	23 / Decommissioning	Wisconsin		Electric	WI	Direct Assigned - Wisconsin
Electric Transmission	Transmission	5 / Electric Transmission Plant			Electric	MN/ND/SD	Electric - Demand Tran (Coincident Peak)
Electric Transmission	Transmission	5 / Transmission Direct Assignment	Minnesota	DRCT	Electric	MN	Direct Assigned – State of Minnesota
Electric Distribution	Transmission	5 / Transmission Serving Distribution	Minnesota		Electric	MN	Direct Assigned - State of Minnesota
Electric Distribution	Transmission	5 / Transmission Serving Distribution	North Dakota		Electric	ND	Direct Assigned - State of North Dakota
Electric Distribution	Transmission	5 / Transmission Serving Distribution	South Dakota		Electric	SD	Direct Assigned - State of South Dakota
Production	Transmission	5 / Transmission Generation Step-up		BSLD, PEAK	Electric	MN/ND/SD	Electric - Demand Prod (Coincident Peak)
Electric Transmission	Common & General	24 / Electric Intangible Plant			Electric	MN/ND/SD	Electric - Demand Tran (Coincident Peak)
Electric Transmission	Common & General	26 / Common Intangible Plant			Electric	MN/ND/SD	Electric - Demand Tran (Coincident Peak)
Electric Transmission	Common & General	29 / Electric General Plant			Electric	MN/ND/SD	Electric - Demand Tran (Coincident Peak)

Selection Criteria *							
CC2 (SBU) SubBU	**Plant Function**	**Functional Class ID / Desc**	**CC6 (LOC)**	**Functional Use**	**Utility**	**JUR**	**Allocation**
Electric Transmission	Common & General	31 / Common General Plant			Electric	MN/ND/SD	Electric - Demand Tran (Coincident Peak)
Electric Distribution	Distribution	6 / Electric Distribution Plant	Minnesota		Electric	MN	Direct Assigned - State of Minnesota
Electric Distribution	Distribution	6 / Electric Distribution Plant	North Dakota		Electric	ND	Direct Assigned - State of North Dakota
Electric Distribution	Distribution	6 / Electric Distribution Plant	South Dakota		Electric	SD	Direct Assigned - State of South Dakota
Production	Distribution	6 / Distribution Generation Step-up		PEAK	Electric	MN/ND/SD	Electric - Demand Prod (Coincident Peak)
Electric Transmission	Distribution	6 / Distribution Serving Transmission		TBULK	Electric	MN/ND/SD	Electric - Demand Tran (Coincident Peak)
Electric Distribution	Common & General	24 / Electric Intangible Plant			Electric	MN/ND/SD	Customer Year End Average - Electric Minnesota Company MN/ND/SD
Electric Distribution	Common & General	26 / Common Intangible Plant			Electric	MN/ND/SD	Customer Year End Average - Electric Minnesota Company MN/ND/SD
Electric Distribution	Common & General	29 / Electric General Plant			Electric	MN/ND/SD	Customer Year End Average - Electric Minnesota Company MN/ND/SD
Electric Distribution	Common & General	31 / Common General Plant			Electric	MN/ND/SD	Customer Year End Average - Electric Minnesota Company MN/ND/SD
Gas	Production	7 / Gas Manufactured Production Plant			Gas	MN/ND	Gas - Design Demand Day
Gas	Storage	9 / Gas Underground Storage Plant			Gas	MN/ND	Gas - Design Demand Day
Gas	Transmission	10 / Gas Transmission Plant			Gas	MN	Direct Assigned – State Of Minnesota
Gas	Transmission	10 / Gas Transmission Plant			Gas	ND	Direct Assigned – State of North Dakota
Gas	Distribution	11 / Gas Distribution Plant			Gas	MN	Direct Assigned – State of Minnesota
Gas	Distribution	11 / Gas Distribution Plant			Gas	ND	Direct Assigned – State of North Dakota
Gas	Common & General	25 / Gas Intangible Plant			Gas	MN/ND	Gas - Design Demand Day
Gas	Common & General	26 / Common Intangible Plant			Gas	MN/ND	Gas - Design Demand Day
Gas	Common & General	30 / Gas General Plant			Gas	MN/ND	Gas - Design Demand Day
Gas	Common & General	31 / Common General Plant			Gas	MN/ND	Gas - Design Demand Day
Gas	Common & General	25 / Gas Intangible Plant			Gas	MN/ND	Customer Year End Average - Gas Minnesota Company MN/ND
Gas	Common & General	26 / Common Intangible Plant			Gas	MN/ND	Customer Year End Average - Gas Minnesota Company MN/ND

Selection Criteria *							
CC2 (SBU) SubBU	**Plant Function**	**Functional Class ID / Desc**	**CC6 (LOC)**	**Functional Use**	**Utility**	**JUR**	**Allocation**
Gas	Common & General	30 / Gas General Plant			Gas	MN/ND	Customer Year End Average - Gas Minnesota Company MN/ND
Gas	Common & General	31 / Common General Plant			Gas	MN/ND	Customer Year End Average - Gas Minnesota Company MN/ND
Gas	Common & General	34 / Gas Other Storage Plant			Gas	MN/ND	Gas - Design Demand Day

* All items under the Selection Criteria must be met before this allocation takes place.

X. DEFINITIONS

Abbreviations or Acronyms

The following abbreviations or acronyms are used within the CAAM document:

A&G	Administrative and General
AFUDC	Allowance for Funds Used During Construction
CAAM	Cost Assignment and Allocation Manual
Commission	South Dakota Public Utilities Commission
Company	Northern States Power Co., a Minnesota corporation
FERC	Federal Energy Regulatory Commission
Fleet Services	Xcel Energy Services Inc. Fleet Services Department
Holding Company	Xcel Energy Inc.
HR	Human Resources
JDE	J.D. Edwards Financial System
LPI	Liberty Paper, Inc.
NSPM	Northern States Power Co., a Minnesota corporation
NSPW	Northern States Power Co., a Wisconsin Corporation
O&M	Operations and Maintenance
OES	Office of Energy Securities
Parent	Xcel Energy Inc.
PassPort	Indus PassPort Integrated Supply Chain/Accounts Payable System
PowerPlant	PowerPlant System
PSCo	Public Service Company of Colorado, a Colorado Corporation
PUHCA	Public Utility Holding Company Act of 1935
SCADA	Supervisory Control and Data Acquisition
Service Company	Xcel Energy Services Inc.
SEC	Securities and Exchange Commission
SPS	Southwestern Public Service Company, a New Mexico Corporation
XES	Xcel Energy Services Inc.

Terms

The following terms are used within the CAAM document:

Accounts Payable	The Payment and Reporting Department of Xcel Energy Services Inc.
Administrative and General	Includes activity in FERC accounts 920-935, Administrative and General Expenses.
Affiliate Transaction	A transfer of a good, service or asset from the utility to a nonregulated division, subsidiary or affiliate, or from a nonregulated division, subsidiary or affiliate to the utility.
Allocated	To distribute a joint or common cost to more than one affiliate, utility operation, jurisdiction or nonregulated business activity. For example, labor of an employee who works for more than one affiliate, shall be allocated based on positive time reporting or other allocation method as identified in the CAAM. Similarly, non-labor joint or common costs such as vehicles, advertising, space, etc. are subject to the cost allocation principles.
Convenience Payments	Payments made by an operating company or the Service Company on behalf of another operating company or affiliate. Convenience payments are recorded in the intercompany accounts of the company. Convenience payments are not the result of the Operating Company or the Service Company providing a service (a good, product or service) to an operating company or affiliate.
Cost Allocation	The method(s) used to allocate a joint or common cost.
Cost Assignment	The method or process of directly assigning a cost.
Customer Accounting Costs	Includes activity in FERC accounts 901-903, Customer Accounts Expenses; FERC accounts 906-910, Customer Service and Informational Expenses; and FERC accounts 911-917, Sales Expenses.
Fully Distributed Cost	Transactions billed include all direct and indirect costs, including overheads.
Operations and Maintenance	Includes activity in FERC accounts 500-935 with the exception of FERC account 501, Fuel; FERC accounts 901-903, Customer Accounts Expenses; FERC accounts 906-910; Customer Service and Informational Expenses; FERC accounts 911-917, Sales Expenses and FERC accounts 920-935, Administrative and General Expenses.
Supply Chain	The Supply Chain Department of the Service Company.

Terms (continued)

Service Function	A specific function of an Organizational Area. Examples include but not limited to: Executive Management, Internal Audit, Payroll and Marketing and Sales.
Subledger	A JDE Business Unit code or Work Order that designates who the charge is being billed to. A subledger is assigned to only one company or legal entity.
Tariff Rate	The price charged to customers under applicable tariffs on file with federal or state regulatory commissions. Tariff rates are used for transactions with affiliates involving the provision of regulated services.
Work Order	Accumulates costs, either for Capital, Expense or to be further allocated.