Northern States Power Company Minnesota - South Dakota

Flotation Cost Adjustment

	2000	2011	Compound Annual Rate
Total Share Growth	339.79 [1]	486 [1]	3.31% [2]
Share Growth Exc. Publicly Issued Shares	339.79 [1]	426.9 [1]	2.10% [3]

Growth Attributable to Publicly Issued Shares	1.19% [4]
Flotation Cost Percentage	5.28% [5]
Flotation Cost Allowance	0.06% [6]

Notes:

1) Number of shares in millions.
2) (486/339.79)^(1/11)-1
3) (426.9/339.79)^(1/11)-1
4) ((1+.0331)/(1+.0210))-1
5) Per DSD-1, Schedule 3, Page 1 of 2
6) (0.0119)*(0.0528)

Double Leverage Impact of Xcel Preferred Stock on Return on Equity

Source	Amount	Weight	Rate of Return	Wtd Return
Common Equity	8,234,565,000	98.74%	8.75%	8.64%
Preferred Stock	104,980,000	1.26%	4.04%	0.05%
Total Equity	8,339,545,000	100.00%		8.69%

Double Leverage Impact	-0.06%

Formula for Adjusting the Cost of Equity to Allow for Stock Expense and Underpricing

Let

$$RR = kB(N + n) + fnB \qquad (1)$$

where

RR = total dollars of required return on equity;

k = cost of equity;

B = book value per share;

N = number our shares outstanding before the issue;

n = number of new shares;

f = allowance for stock expense and underpricing

In Equation (1) the total dollars of required return are equated to the total fair return, $kB(N + n)$, plus the dollar cost of the stock issue, fnB, effectively expensing the dollar cost of the stock issue. The required return on equity, adjusted to allow for stock expense and underpricing, is therefore

$$r = \frac{RR}{N(N+n)} \qquad (2)$$

and by substituting (1) into (2) and rearranging we get

$$r = k + \frac{nf}{N+n} \qquad (3)$$

The adjustment to the cost of equity to allow for stock expense and underpricing is therefore the quantity nf/(N + n). Recognizing n/(N + n) as the rate of growth in new shares, we can further simplify this to

$$r = k + zf \qquad (4)$$

where z is the rate of growth in new shares, and f is the percentage allowance for stock expense and underpricing, and zf is the flotation cost allowance as an addition to the cost of equity.