

ROE = 2.98%

Deficiency = \$18,583

% Increase = 12.69%

Required ROE = 11.25%

**Northern States Power Company (MN)
Electric Utility - South Dakota Retail Jurisdiction
Cost of Service Study
2008 Pro Forma**

Summary Reports

June 22, 2009

Northern States Power Company (MN)
 Electric Utility - South Dakota Retail Jurisdiction
 Cost of Service Study
 2008 Pro Forma

(Dollars in Thousands)

Rate Base Summary

	<u>Total Company Electric</u>			<u>South Dakota Retail Electric</u>			<u>All Other</u>		
	<u>Beginning Balance</u>	<u>Ending Balance</u>	<u>Average Balance</u>	<u>Beginning Balance</u>	<u>Ending Balance</u>	<u>Average Balance</u>	<u>Beginning Balance</u>	<u>Ending Balance</u>	<u>Average Balance</u>
1 Plant Investment	11,700,141	11,700,141	11,700,141	635,320	635,320	635,320	11,064,821	11,064,821	11,064,821
2 Depreciation Reserve	<u>(5,891,292)</u>	<u>(5,891,292)</u>	<u>(5,891,292)</u>	<u>(314,088)</u>	<u>(314,088)</u>	<u>(314,088)</u>	<u>(5,577,204)</u>	<u>(5,577,204)</u>	<u>(5,577,204)</u>
3 Net Utility Plant	5,808,849	5,808,849	5,808,849	321,232	321,232	321,232	5,487,617	5,487,617	5,487,617
4 C.W.I.P.	0	0	0	0	0	0	0	0	0
5 Accumulated Deferred Taxes	(958,947)	(958,947)	(958,947)	(55,793)	(55,793)	(55,793)	(903,154)	(903,154)	(903,154)
Other Rate Base:									
6 Cash Working Capital	29,812	29,812	29,812	1,866	1,866	1,866	27,947	27,947	27,947
7 Materials & Supplies	94,856	94,856	94,856	4,944	4,944	4,944	89,912	89,912	89,912
8 Fuel Inventory	111,084	111,084	111,084	5,879	5,879	5,879	105,205	105,205	105,205
9 Non-Plant Assets & Liab	(48,905)	(48,905)	(48,905)	(2,637)	(2,637)	(2,637)	(46,268)	(46,268)	(46,268)
10 Prepays & Other	61,262	61,262	61,262	7,149	7,149	7,149	54,113	54,113	54,113
11 Total Rate Base	5,098,011	5,098,011	5,098,011	282,640	282,640	282,640	4,815,372	4,815,372	4,815,372

COS-2

North States Power Company (MN)
 Electric Utility - South Dakota Retail Jurisdiction
 Cost of Service Study
 2008 Pro Forma
 (Dollars in Thousands)

Income Statement Summary

	<u>Total Company Electric</u>	<u>South Dakota Retail Electric</u>	<u>All Other</u>
<u>Operating Revenues</u>			
1 Retail	2,906,779	146,384	2,760,395
2 CIP Adjustment to Program Costs	0	-	0
3 Interdepartmental	564	-	564
4 Other Operating	743,947	34,933	709,014
5 Gross Earnings Tax	0	-	0
6 Total Operating Revenues	3,651,290	181,317	3,469,973
<u>Expenses</u>			
Operating Expenses:			
7 Fuel & Purchased Energy	1,470,130	74,867	1,395,263
8 Power Production	634,321	32,794	601,527
9 Transmission	155,646	7,988	147,658
10 Distribution	105,630	6,045	99,585
11 Customer Accounting	65,189	4,244	60,945
12 Customer Service & Information	60,895	332	60,563
13 Sales, Econ Dvlp & Other	391	103	288
14 Administrative & General	193,942	10,864	183,078
15 Total Operating Expenses	2,686,144	137,237	2,548,907
16 Depreciation	381,954	21,470	360,484
17 Amortization	12,106	352	11,754
Taxes:			
18 Property	106,720	4,956	101,764
19 Gross Earnings	0	-	0
20 Deferred Income Tax & ITC	114,362	4,819	109,543
21 State & Federal Income (see Page 3)	(4,900)	(2,384)	(2,516)
22 Payroll & Other	27,154	1,452	25,702
23 Total Taxes	243,336	8,843	234,493
24 Total Expenses	3,323,540	167,902	3,155,638
25 AFUDC	0	-	0
26 Total Operating Income	327,750	13,415	314,335

COS-3

Income Tax Summary

	<u>Total Company Electric</u>	<u>SD Retail Electric</u>	<u>All Other</u>
Income Before Taxes			
1 Total Operating Revenues	3,651,290	181,317	3,469,973
2 less: Total Operating Expenses	(2,686,144)	(137,237)	(2,548,907)
3 Book Depreciation & Amortization	(394,060)	(21,822)	(372,238)
4 Taxes (Other Than Current Income)	(248,236)	(11,227)	(237,009)
5 Total Before Tax Book Income	322,850	11,031	311,819
Tax Additions			
6 Book Depreciation	381,954	21,470	360,484
7 Deferred Income Taxes & ITC	114,362	4,819	109,543
8 Nuclear Fuel Burn (ex D&D)	79,775	4,095	75,680
9 Nuclear Outage Accounting	43,739	2,242	41,497
10 Avoided Tax Interest	52,295	2,707	49,588
11 Configuration Mgmt	57	57	0
12 TBT Production	(9)	0	(9)
13 TBT Transmission	(3)	0	(3)
14 TBT Distribution	(6)	0	(6)
15 Open Line	0	0	0
16 Other Book Additions	0	0	0
17 Total Tax Additions	672,164	35,390	636,774
Tax Deductions			
18 Debt Interest Expense	163,646	9,073	154,573
19 Tax Depreciation & Removal	840,635	44,018	796,617
20 Manufacture Production Deduction	0	0	0
21 Meal & Fas 106	2,093	112	1,981
22 Open	0	0	0
23 Open	0	0	0
24 Other Tax/Book Timing Differences	(24,075)	(1,399)	(22,676)
25 Net Preferred Stock Deduction	0	0	0
26 Total Tax Deductions	982,299	51,804	930,495
27 State Taxable Income	12,715	(5,383)	18,097
28 State Income Tax Rate	9.00%	0.00%	N/A
29 State Taxes before Credits	1,144	0	1,144
30 State Credits	593	0	593
31 Total State Income Taxes	551	0	551
32 Federal Taxable Income	12,164	(5,383)	17,546
33 Federal Income Tax Rate	35.00%	35.00%	35.00%
34 Federal Tax before Credits	4,257	(1,884)	6,141
35 Federal Tax Credits	9,708	500	0
36 Total Federal Income Taxes	(5,451)	(2,384)	6,141
37 Total Federal & State Income Taxes	(4,900)	(2,384)	6,692

POS-4

Northern States Power Company (MN)
 Electric Utility - South Dakota Retail Jurisdiction
 Cost of Service Study
 2008 Pro Forma

Revenue Requirement & Return Summary

(Dollars in Thousands)

<u>Capital Structure</u>	<u>Rate</u>	<u>Ratio</u>	<u>Weighted Cost</u>	<u>Composite Income Tax Rates</u>	
1 Long Term Debt	6.6400%	48.3700%	3.2100%	State of South Dakota Tax rate	0.00%
2 Short Term Debt	0.0000%	0.0000%	0.0000%	Federal Statutory Tax rate	35.00%
3 Preferred Stock	0.0000%	0.0000%	0.0000%	Federal Effective Tax Rate (1-State Rate * Fed Rate)	35.00%
4 Common Equity	11.2500%	51.6300%	5.8100%	Total South Dakota Composite Tax Rate	35.00%
5 Required Rate of Return			9.0200%	Total Corporate Composite Tax Rate	40.85%

	<u>Total Company Electric</u>	<u>SD Retail Electric</u>	<u>All Other</u>
<u>Rate of Return (ROR)</u>			
6 Total Operating Income	327,750	13,415	314,335
7 Total Average Rate Base	<u>5,098,011</u>	<u>282,640</u>	<u>4,815,372</u>
8 ROR (Operating Income / Rate Base)	6.43%	4.75%	6.53%
<u>Return on Equity (ROE)</u>			
9 Total Operating Income	327,750	13,415	314,335
10 Debt Interest (Rate Base * Weighted Debt Cost)	(163,646)	(9,073)	(154,573)
11 Preferred Stock (Rate Base * Weighted Preferred Cost)	<u>0</u>	<u>0</u>	<u>0</u>
12 Earnings Available for Common	164,104	4,342	159,761
13 Equity Rate Base (Rate Base * Equity Ratio)	<u>2,632,103</u>	<u>145,927</u>	<u>2,486,176</u>
14 ROE (Earnings for Common / Equity Rate Base)	6.23%	2.98%	6.43%
<u>Revenue Deficiency</u>			
15 Require Operating Income (Rate Base * Required Return)	459,841	25,494	434,347
16 Operating Income	<u>327,750</u>	<u>13,415</u>	<u>314,335</u>
17 Operating Income Deficiency	132,091	12,079	120,012
18 Revenue Conversion Factor (1/(1-Composite Tax Rate))	1.69056	1.53846	N/A
19 Revenue Deficiency (Income Deficiency * Conversion Factor)	223,308	18,583	204,725
<u>Total Retail Revenue Requirements</u>			
20 Retail Related Revenues	2,907,343	146,384	2,760,959
21 Revenue Deficiency	<u>223,308</u>	<u>18,583</u>	<u>204,725</u>
22 Total Retail Revenue Requirements	3,130,651	164,967	2,965,684
23 <u>Percentage Increase (Decrease)</u>	7.68%	12.69%	7.41%

COS-5

Rate Base Detail - Cash Working Capital

Expenses	Lead Days	Total Company Electric		South Dakota Retail Electric		All Other			
		Dollars	Dollar x Days	Dollars	Dollar x Days	Dollars	Dollar x Days		
Includable Expenses									
Fuel Expenses									
1	Coal & Rail Transport	21.08	356,593	7,515,911	18,874	397,807	337,719	7,118,103	
2	Gas for Generation	38.45	101,778	3,912,957	5,387	207,109	96,391	3,705,848	
3	Oil	22.51	5,023	113,043	266	5,986	4,757	107,056	
4	Nuclear & EOL	0.00	76,907	0	4,218	0	72,689	0	
5	Nuclear Disposal	76.00	12,549	953,724	644	48,944	11,905	904,780	
6			552,850	12,495,634	29,389	659,846	523,461	11,835,788	
Purchased Power									
7	Purchases	28.12	1,102,305	30,992,407	56,808	1,597,214	1,045,497	29,395,194	
8	Interchange	38.21	106,362	4,064,092	5,498	210,079	100,864	3,854,013	
			1,208,667	35,056,499	62,306	1,807,292	1,146,361	33,249,207	
Labor & Related Costs									
9	Regular Payroll	12.31	352,911	4,344,334	18,336	225,716	334,575	4,118,618	
10	Incentive Compensation	255.05	(9,738)	(2,483,677)	(212)	(54,071)	(9,526)	(2,429,606)	
11	Pension & Benefits	19.20	54,624	1,048,781	2,968	56,986	51,656	991,795	
12	Subtotal Labor & Related		397,797	2,909,438	21,092	228,631	376,705	2,680,807	
13									
14	All Other Operating Expenses	35.01	526,830	18,442,749	24,450	855,927	502,380	17,586,822	
15	Property Tax	356.72	106,720	38,069,158	4,956	1,767,904	101,764	36,301,254	
16	Employer's Payroll Taxes	26.56	27,154	721,210	1,452	38,565	25,702	682,645	
17	Gross Earnings Tax	51.98	0	0	0	0	0	0	
18	Federal Income Tax	37.75	(5,451)	(205,766)	(2,384)	(89,996)	(3,067)	(115,769)	
19	State Income Tax	37.75	551	20,798	0	0	551	20,798	
20	State Sales Tax Customer Billings	35.73	125,632	4,488,831	5,320	190,084	120,312	4,298,748	
21	Total Expenses	38.09	2,940,750	111,998,553	146,581	5,458,253	2,794,169	106,540,300	
22	Net Annual Expense Amount			306,845		14,954		291,891	
Revenues									
23	Computer Billing	100.00%	42.83	2,906,779	124,492,403	146,879	6,290,578	2,759,900	118,201,825
24	Hand Billed	0.00%	42.83	0	0	0	0	0	0
25	Retail Revenue Adjustments	0.00	0	0	0	0	0	0	0
26	Interdepartmental	0.00	564	0	0	0	564	0	0
27	Late Payment	0.00	5,644	0	354	0	5,290	0	0
28	Connect and Trouble Charges	42.83	1,931	82,701	227	9,722	1,704	72,979	0
29	CIP Incentive	0.00	0	0	0	0	0	0	0
30	Rentals	114.17	4,128	471,294	241	27,515	3,887	443,779	0
31	Interchange Revenues	38.21	380,382	14,534,396	19,857	758,736	360,525	13,775,660	0
32	Sales for Resale	37.10	251,774	9,340,815	8,712	323,215	243,062	9,017,600	0
33	Production Associated Revenues	37.10	5,759	213,659	305	11,316	5,454	202,343	0
34	MISO	14.00	7,178	100,492	368	5,152	6,810	95,340	0
35	Point to Point Firm	37.10	49,882	1,850,622	2,561	95,013	47,321	1,755,609	0
36	Services & Facilities	37.10	8,611	319,468	438	16,250	8,173	303,218	0
37	Ancillary	37.10	14,033	520,624	720	26,712	13,313	493,912	0
38	Distribution Associated Revenues	42.83	476	20,386	0	0	476	20,386	0
39	Other	42.83	17,171	735,405	1,310	56,105	15,861	679,300	0
40	JOA - Rev fr/to PSC	37.10	(3,022)	(112,118)	(160)	(5,936)	(2,862)	(106,180)	0
41	(blank)	0.00	0	0	0	0	0	0	0
42	(blank)	0.00	0	0	0	0	0	0	0
43	(blank)	0.00	0	0	0	0	0	0	0
44	Total Revenues	41.79	3,651,290	152,570,150	181,812	7,614,378	3,469,478	144,955,773	0
45	Net Annual Amount			418,000		20,861		397,139	0
46	Expense / Revenue Factor			0.80540042		0.806223735			0
47	Allocated Revenue Amount			336,658		16,819			0
48	Net Cash Working Capital			29,812		1,865		27,948	0

COS-6