

Northern States Power Company (Minnesota- “NSPM”) and Northern States Power Company (Wisconsin- “NSPW”) coordinate in the development and operation of their generation and transmission facilities as an integrated system under the FERC approved Interchange Agreement. The Agreement is designed to establish the charges for each company to the other for the sales of power and energy between the companies and for transmission service provided to each, by the other. Each company then shares in system generation and transmission costs by billing each other on an actual basis.

The Agreement provides for the identification of major system cost components including fixed charges (return, depreciation, property taxes, income taxes and insurance), and fixed and variable costs, which include the cost of fuel, purchases and sales of capacity and energy, and production and transmission related operating and maintenance expenses. As prescribed by the Agreement, fixed costs are shared between NSPM and NSPW on the basis of the 36-month peak demands of the two companies, while variable costs are shared on the basis of the respective energy requirements of the two companies. As a general rule of thumb, NSPM shares in approximately 84% of all system production and transmission costs, while NSPW shares in approximately 16%.

NSPM purchases facilities and services from Xcel Energy Service, Inc. Those services are provided at cost, the allocation of which is described in the Cost Assignment and Allocation Manual.

Both the Interchange Agreement and the Cost Assignment and Allocation Manual are provided in Volume 4 of this filing.