

Invenergy Cannon Falls and Calpine Mankato (MEC 1) PPA Acquisition Background

The Minnesota Public Utilities Commission approved the resource acquisition process used by the Company to acquire the Cannon Falls and MEC 1 plants as part of our Integrated Resource Plan covering the years 2000 to 2014. The approved process was utilized to solicit proposals to increase Xcel Energy's supply portfolio by 1,000 MWs. To meet this objective the Company issued an All Source Request for Proposals (RFP) dated December 6, 2001. The RFP outlined the baseload and peaking supply needs of the Company's supply portfolio beginning in 2005 and extending into the year 2009.

In response to the 2001 All Source RFP, Xcel Energy received over 47 bids amounting to 113 discreet proposals. The Company considered all possible bid options contemplated by the bids and, in addition, analyzed dozens of other combinations to develop a short list of proposals. On June 18, 2003, Xcel Energy filed its Final Evaluation Report in our 2001 All Source competitive bidding process docket. In that report, the Company recommended selection of a portfolio of resources containing seven individual project proposals. The Commission, in an Order dated November 19, 2003, approved the Company's recommended portfolio. After receiving Commission approval, Xcel Energy proceeded to contract negotiations with the finalists. Invenergy Cannon Falls and Calpine Mankato were selected as part of this process, and the Company was able to successfully negotiate and execute purchased power agreement with both parties.

Invenergy Cannon Falls

Invenergy submitted a proposal on March 15, 2002 to supply approximately 357 MWs of peaking capacity. Although the Company selected the project for the short list and sought to include the project in its Final Evaluation Report, it was ultimately left off of the shortlist when Invenergy removed itself from further consideration.

During the contract negotiations that followed the Commission's approval of our recommended portfolio, certain selected projects ran into obstacles that challenged the commercial viability of those projects. For example, projects that proposed to import power to Xcel Energy's system from Wisconsin or Illinois were determined to

have significant and unexpected transmission issues. Additionally, a natural gas project stalled during contract negotiations.

Following the loss of these projects, Xcel Energy contacted Invenergy to determine whether it would reconsider its decision to pull out of the All Source RFP and, additionally, whether the Project could be developed for a summer 2006 in-service date. Invenergy responded affirmatively to both questions and advised us that modifications to its bid were needed in order to proceed with the process. The Company's analysis of those modifications demonstrated that the price and terms of Invenergy's revised proposal were favorable compared to the other short list projects, so the Company proceeded to contract negotiations. Invenergy and the Company completed negotiations and executed the PPA in June 2004. The terms of the PPA required Invenergy Cannon Falls to develop and construct a combustion turbine power plant with a capability of 357 MW prior to May 2006. Further information and analysis regarding the selection of the Invenergy Cannon Falls PPA can be found in MPUC Docket No. E002/M-04-1426.

Calpine Mankato

The Calpine Mankato (MEC 1) project also bid into the Company's 2001 All Source RFP and was selected to the short list that was presented to the Commission. As noted above, the Commission approved our recommended portfolio and the Company moved into contract negotiations on those projects.

The MEC 1 project was bid as a greenfield combined cycle facility to be built near Sherry, Wisconsin by Calpine Corporation. As proposed, Calpine's Sherry project would have consisted of two gas-fired combustion turbines and two associated heat recovery steam generators (HRSG's), together with a steam turbine generator. During the contract negotiations, Calpine made two major changes.

First, due to project development problems, in late 2003 Calpine requested that it be allowed to move the physical location of the project. A site in Mankato, Minnesota was identified as the preferred alternative location, and Xcel Energy agreed to Calpine's request as it increased the likelihood that the project would advance to commercial operation.

The second modification to Calpine's original proposal came at the request of the Company. As outlined above, certain of the short list projects encountered challenges

which forced the projects to withdraw from further negotiations. The Company sought to replace the lost capacity and Calpine offered to address the Company's lost capacity problem by adding duct firing capability to the planned combined cycle Mankato EC Facility. Our analysis indicated that the modifications could be completed at a price and on terms that were favorable to the Company and our customers. Accordingly, the Company agreed to increase the project size by 85 MW and to re-price the capacity payment rate at a blended price. The addition of the duct firing to the Mankato EC allowed the Company to purchase an additional 85 MWs of peak firing capacity at a cost below other peaking facility bids while benefiting from the heat rate of a combined cycle facility with duct firing and the flexibility of dispatch of this type of capacity—resulting in an overall benefit to Company's ratepayers.

Calpine and the Company completed negotiations and executed the PPA on March 11, 2004. Further information and analysis regarding the selection of the Invenergy Cannon Falls PPA can be found in MPUC Docket No. E002/M-04-451.