XCEL ENERGY INC
Form 10-Q
April 27, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2007

or

o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number: 1-3034

Xcel Energy Inc.

(Exact name of registrant as specified in its charter)

Minnesota (State or other jurisdiction of incorporation or organization)	**41-0448030** (I.R.S. Employer Identification No.)
414 Nicollet Mall, Minneapolis, Minnesota (Address of principal executive offices)	**55401** (Zip Code)

Registrant s telephone number, including area code **(612) 330-5500**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer x Accelerated Filer o Non-Accelerated Filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

o Yes x No

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	Outstanding at April 17, 2007
Common Stock, $2.50 par value	408,915,475 shares

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

XCEL ENERGY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(Thousands of Dollars, Except Per Share Data)	Three Months Ended March 31, 2007		Three Months Ended March 31, 2006	
Operating revenues				
Electric utility	$	1,815,803	$	1,845,872
Natural gas utility		927,422		1,018,140
Nonregulated and other		20,437		24,092
Total operating revenues		2,763,662		2,888,104
Operating expenses				
Electric fuel and purchased power utility		979,571		994,695
Cost of natural gas sold and transported utility		740,782		850,425
Cost of sales nonregulated and other		6,025		8,230
Other operating and maintenance expenses utility		461,264		435,246
Other operating and maintenance expenses nonregulated		6,303		5,564
Depreciation and amortization		213,413		202,660
Taxes (other than income taxes)		78,176		78,535
Total operating expenses		2,485,534		2,575,355
Operating income		278,128		312,749
Interest and other income (expense), net (see Note 10)		816		(384)
Allowance for funds used during construction equity		7,576		3,784
Interest charges and financing costs				
Interest charges (includes other financing costs of $6,271 and $6,212, respectively)		127,303		119,374
Allowance for funds used during construction debt		(7,206)		(6,373)
Total interest charges and financing costs		120,097		113,001
Income from continuing operations before income taxes		166,423		203,148
Income taxes		47,909		53,336
Income from continuing operations		118,514		149,812
Income from discontinued operations, net of tax (see Note 3)		1,197		1,486
Net income		119,711		151,298
Dividend requirements on preferred stock		1,060		1,060
Earnings available to common shareholders	$	118,651	$	150,238
Weighted average common shares outstanding (thousands)				
Basic		408,003		404,125
Diluted		432,054		427,461
Earnings per share basic				
Income from continuing operations	$	0.29	$	0.37
Discontinued operations				
Earnings per share basic	$	0.29	$	0.37
Earnings per share diluted				
Income from continuing operations	$	0.28	$	0.36

Discontinued operations				
Earnings per share diluted	$	0.28	$	0.36
Cash dividends declared per common share	$	0.22	$	0.22

See Notes to Consolidated Financial Statements

XCEL ENERGY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(Thousands of Dollars)

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Operating activities		
Net income	$ 119,711	$ 151,298
Remove income from discontinued operations	(1,197)	(1,486)
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	222,733	209,518
Nuclear fuel amortization	11,554	11,856
Deferred income taxes	43,060	(38,505)
Amortization of investment tax credits	(2,427)	(2,451)
Allowance for equity funds used during construction	(7,576)	(6,004)
Undistributed equity in earnings of unconsolidated affiliates	(695)	(746)
Share-based compensation expense	4,469	5,484
Net realized and unrealized hedging and derivative transactions	41,763	6,485
Changes in operating assets and liabilities:		
Accounts receivable	(57,237)	69,651
Accrued unbilled revenues	(6,542)	217,887
Inventories	118,475	152,724
Recoverable purchased natural gas and electric energy costs	179,028	169,914
Other current assets	8,296	1,829
Accounts payable	(147,135)	(335,628)
Net regulatory assets and liabilities	(7,620)	(23,092)
Other current liabilities	82,007	90,783
Change in other noncurrent assets	(16,881)	9,299
Change in other noncurrent liabilities	(621)	24,190
Operating cash flows provided by (used in) discontinued operations	16,201	(16,034)
Net cash provided by operating activities	599,366	696,972
Investing activities		
Utility capital/construction expenditures	(482,410)	(320,419)
Allowance for equity funds used during construction	7,576	6,004
Purchase of investments in external decommissioning fund	(149,841)	(4,339)
Proceeds from the sale of investments in external decommissioning fund	138,993	5,399
Nonregulated capital expenditures and asset acquisitions	(135)	(231)
Change in restricted cash	2,381	5,922
Other investments	4,959	10,003
Investing cash flows provided by discontinued operations		42,377
Net cash used in investing activities	(478,477)	(255,284)
Financing activities		
Short-term borrowings net	108,200	(96,456)
Proceeds from issuance of long-term debt		193,918
Repayment of long-term debt, including reacquisition premiums	(101,208)	(444,787)
Early participation payments on debt exchange (see Note 8)	(4,859)	
Proceeds from issuance of common stock	4,509	2,008
Dividends paid	(91,683)	(87,786)
Net cash used in financing activities	(85,041)	(433,103)
Net increase in cash and cash equivalents	35,848	8,585
Net increase (decrease) in cash and cash equivalents - discontinued operations	(8,303)	1,126

Cash and cash equivalents at beginning of year		37,458		72,196
Cash and cash equivalents at end of quarter	$	65,003	$	81,907
Supplemental disclosure of cash flow information				
Cash paid for interest (net of amounts capitalized)	$	110,606	$	95,959
Cash paid for income taxes (net of refunds received)		4,230		559
Supplemental disclosure of non-cash investing transactions:				
Property, plant and equipment additions in accounts payable	$	50,162	$	72,477
Supplemental disclosure of non-cash financing transactions:				
Issuance of common stock for reinvested dividends and 401(k) plans	$	30,600	$	29,931

See Notes to Consolidated Financial Statements

XCEL ENERGY INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Thousands of Dollars)

	March 31, 2007	Dec. 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 65,003	$ 37,458
Accounts receivable, net of allowance for bad debts of $36,712 and $36,689, respectively	920,921	833,293
Accrued unbilled revenues	520,842	514,300
Materials and supplies inventories	165,567	158,721
Fuel inventories	96,707	95,651
Natural gas inventories	125,441	251,818
Recoverable purchased natural gas and electric energy costs	79,572	258,600
Derivative instruments valuation	71,656	101,562
Prepayments and other	206,306	205,743
Current assets held for sale and related to discontinued operations	126,706	177,040
Total current assets	2,378,721	2,634,186
Property, plant and equipment, at cost:		
Electric utility plant	19,497,989	19,367,671
Natural gas utility plant	2,869,420	2,846,435
Common utility and other property	1,453,243	1,439,020
Construction work in progress	1,679,519	1,425,484
Total property, plant and equipment	25,500,171	25,078,610
Less accumulated depreciation	(9,822,356)	(9,670,104)
Nuclear fuel, net of accumulated amortization: $1,249,471 and $1,237,917, respectively	157,560	140,152
Net property, plant and equipment	15,835,375	15,548,658
Other assets:		
Nuclear decommissioning fund and other investments	1,295,959	1,279,573
Regulatory assets	1,127,272	1,189,145
Prepaid pension asset	597,586	586,712
Derivative instruments valuation	425,314	437,520
Other	142,532	135,746
Noncurrent assets held for sale and related to discontinued operations	176,736	146,806
Total other assets	3,765,399	3,775,502
Total assets	$ 21,979,495	$ 21,958,346
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 236,290	$ 336,411
Short-term debt	734,500	626,300
Accounts payable	949,487	1,101,270
Taxes accrued	297,038	252,384
Dividends payable	92,021	91,685
Derivative instruments valuation	63,297	83,944
Other	372,997	347,809
Current liabilities held for sale and related to discontinued operations	9,963	25,478
Total current liabilities	2,755,593	2,865,281
Deferred credits and other liabilities:		
Deferred income taxes	2,295,882	2,256,599
Deferred investment tax credits	119,167	121,594
Asset retirement obligations	1,381,680	1,361,951
Regulatory liabilities	1,373,552	1,364,657
Pension and employee benefit obligations	695,204	704,913

Derivative instruments valuation		468,377		483,077
Customer advances		303,227		302,168
Other liabilities		152,809		119,633
Noncurrent liabilities held for sale and related to discontinued operations		7,285		5,473
Total deferred credits and other liabilities		6,797,183		6,720,065
Minority interest in subsidiaries		1,214		1,560
Commitments and contingent liabilities (see Note 6)				
Capitalization:				
Long-term debt		6,452,274		6,449,638
Preferred stockholders equity - authorized 7,000,000 shares of $100 par value; outstanding shares: 1,049,800		104,980		104,980
Common stockholders equity - authorized 1,000,000,000 shares of $2.50 par value; outstanding shares: March 31, 2007 408,860,716; December 31, 2006 407,296,907		5,868,251		5,816,822
Total liabilities and equity	$	21,979,495	$	21,958,346

See Notes to Consolidated Financial Statements

XCEL ENERGY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS EQUITY
AND COMPREHENSIVE INCOME
(UNAUDITED)
(Thousands)

	Common Stock Issued		Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Common Stockholders Equity
	Shares	**Par Value**				
Three months ended March 31, 2007 and 2006						
Balance at Dec. 31, 2005	403,387	$ 1,008,468	$ 3,956,710	$ 562,138	$ (132,061)	$ 5,395,255
Net income				151,298		151,298
Net derivative instrument fair value changes during the period, net of tax of $11,083 (see Note 9)					18,000	18,000
Unrealized gain - marketable securities, net of tax of $13					22	22
Comprehensive income for the period						169,320
Dividends declared:						
Cumulative preferred stock				(1,060)		(1,060)
Common stock				(87,093)		(87,093)
Issuances of common stock	1,700	4,251	27,831			32,082
Share-based compensation			10,087			10,087
Balance at March 31, 2006	405,087	$ 1,012,719	$ 3,994,628	$ 625,283	$ (114,039)	$ 5,518,591
Balance at Dec. 31, 2006	407,297	$ 1,018,242	$ 4,043,657	$ 771,249	$ (16,326)	$ 5,816,822
FIN 48 adoption				2,207		2,207
Net income				119,711		119,711
Changes in unrecognized amounts of pension and retiree medical benefits, net of tax of $125					487	487
Net derivative instrument fair value changes during the period, net of tax of $(1,888) (see Note 9)					(800)	(800)
Unrealized gain - marketable securities, net of tax of $2					4	4
Comprehensive income for the period						119,402
Dividends declared:						
Cumulative preferred stock				(1,060)		(1,060)
Common stock				(90,959)		(90,959)
Issuances of common stock	1,564	3,910	12,262			16,172
Share-based compensation			5,667			5,667
Balance at March 31, 2007	408,861	$ 1,022,152	$ 4,061,586	$ 801,148	$ (16,635)	$ 5,868,251

See Notes to Consolidated Financial Statements

XCEL ENERGY INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly the financial position of Xcel Energy Inc. and its subsidiaries (collectively, Xcel Energy) as of March 31, 2007, and Dec. 31, 2006; the results of its operations and changes in common stockholders equity for the three months ended March 31, 2007 and 2006; and its cash flows for the three months ended March 31, 2007 and 2006. Due to the seasonality of Xcel Energy s electric and natural gas sales, such interim results are not necessarily an appropriate base from which to project annual results.

1. Significant Accounting Policies

Except to the extent updated or described below, the significant accounting policies set forth in Note 1 to the consolidated financial statements in Xcel Energy s Annual Report on Form 10-K for the year ended Dec. 31, 2006, appropriately represent, in all material respects, the current status of accounting policies, and are incorporated herein by reference.

Income Taxes Consistent with prior periods and upon adoption of Financial Accounting Standard Board (***FASB) Interpretation No.*** 48 Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 , Xcel Energy records interest and penalties related to income taxes as interest charges in the Consolidated Statements of Income.

Reclassifications Certain amounts in the Consolidated Statements of Cash Flows have been reclassified from prior-period presentation to conform to the 2007 presentation. The reclassifications reflect to the presentation of unbilled revenue, recoverable purchased natural gas and electric energy costs and regulatory assets and liabilities and share-based compensation expense as separate items rather than components of other assets and other liabilities within net cash provided by operating activities. In addition, activity related to derivative transactions have been combined into net realized and unrealized hedging and derivative transactions. These reclassifications did not affect total net cash provided by (used in) operating, investing or financing activities within the Consolidated Statements of Cash Flows.

2. Recently Issued Accounting Pronouncements

Fair Value Measurements (SFAS 157) In September 2006, the FASB issued Statement of Financial Accounting Standard (SFAS) 157, which provides a single definition of fair value, together with a framework for measuring it, and requires additional disclosure about the use of fair value to measure assets and liabilities. SFAS 157 also emphasizes that fair value is a market-based measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Fair value measurements are disclosed by level within that hierarchy. SFAS 157 is effective for financial statements issued for fiscal years beginning after Nov. 15, 2007. Xcel Energy is evaluating the impact of

SFAS 157 on its financial condition and results of operations and does not expect the impact of adoption to be material.

The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115 (SFAS 159)

In February 2007, the FASB issued SFAS 159, which provides companies with an option to measure, at specified election dates, many financial instruments and certain other items at fair value that are not currently measured at fair value. A company that adopts SFAS 159 will report unrealized gains and losses on items, for which the fair value option has been elected, in earnings at each subsequent reporting date. This statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. This statement is effective for fiscal years beginning after Nov. 15, 2007. Xcel Energy is evaluating the impact of SFAS 159 on its financial condition and results of operations and does not expect the impact of adoption to be material.

3. Discontinued Operations

A summary of the subsidiaries presented as discontinued operations is discussed below. Results of operations for divested businesses and the results of businesses held for sale are reported for all periods presented on a net basis as discontinued operations. In addition, the assets and liabilities of the businesses divested and held for sale in 2007 and 2006 have been reclassified to assets and liabilities held for sale in the accompanying Consolidated Balance Sheets.

Assets held for sale are valued on an asset-by-asset basis at the lower of carrying amount or fair value less costs to sell. In applying those provisions, management considered cash flow analyses, bids and offers related to those assets and businesses. Assets held for sale are not depreciated.

Regulated Utility Segments

Cheyenne Light, Fuel and Power Company (Cheyenne), which was sold in 2005, had an impact on Xcel Energy s financial statements in 2006 relating to tax adjustments.

Nonregulated Subsidiaries All Other Segments

Seren Innovations Inc., NRG Energy, Inc., e prime, Xcel Energy International, Utility Engineering, and Quixx, which were all sold in 2006 or earlier, continue to have activity and balances reflected on Xcel Energy s financial statements as reported in the tables below.

Summarized Financial Results of Discontinued Operations

(Thousands of dollars)	Utility Segments		All Other		Total	
Three months ended March 31, 2007						
Operating revenues	$		$	36	$	36
Operating and other income				(233)		(233)
Pretax income from operations of discontinued components				269		269
Income tax benefit				(928)		(928)
Net income from discontinued operations	$		$	1,197	$	1,197
Three months ended March 31, 2006						
Operating revenues	$		$	2,830	$	2,830
Operating and other expenses		11		4,633		4,644
Pretax loss from operations of discontinued components		(11)		(1,803)		(1,814)
Income tax benefit		(1,179)		(2,121)		(3,300)
Net income from discontinued operations	$	1,168	$	318	$	1,486

The major classes of assets and liabilities held for sale and related to discontinued operations are as follows:

(Thousands of dollars)	March 31, 2007		Dec. 31, 2006	
Cash	$	17,426	$	25,729
Accounts receivables, net		938		421
Deferred income tax benefits		93,543		144,740
Other current assets		14,799		6,150
Current assets held for sale and related to discontinued operations	$	126,706	$	177,040
Net property, plant and equipment		44		174
Deferred income tax benefits		147,718		144,564
Other noncurrent assets		28,974		2,068
Noncurrent assets held for sale and related to discontinued operations	$	176,736	$	146,806
Accounts payable		1,457		1,560
Other current liabilities		8,506		23,918
Current liabilities held for sale and related to discontinued operations	$	9,963	$	25,478
Other noncurrent liabilities		7,285		5,473
Noncurrent liabilities held for sale and related to discontinued operations	$	7,285	$	5,473

4. Income Taxes

Corporate-Owned Life Insurance (COLI) In April 2004, Xcel Energy filed a lawsuit against the U.S. government in the U.S. District Court for the District of Minnesota to establish its right to deduct the interest expense that had accrued during tax years 1993 and 1994 on policy loans related to its COLI policies that insured certain lives of Public Service Company of Colorado (PSCo). These policies are owned by PSR Investments, Inc. (PSRI), a wholly owned subsidiary of PSCo.

After Xcel Energy filed this suit, the Internal Revenue Service (IRS) sent two statutory notices of deficiency of tax, penalty and interest for 1995 through 1999. Xcel Energy has filed U.S. Tax Court petitions challenging those notices. Xcel Energy anticipates the dispute relating to its interest expense deductions will be resolved in the refund suit that is pending in the Minnesota Federal District Court and the Tax Court petitions will be held in abeyance pending the outcome of the refund litigation. In the third quarter of 2006, Xcel Energy also received a statutory notice of deficiency from the IRS for tax years 2000 through 2002 and timely filed a Tax Court petition challenging the denial of the COLI interest expense deductions for those years.

On May 5, 2006, Xcel Energy filed a second motion for summary judgment. On Aug. 18, 2006, the U.S. government filed a second motion for summary judgment. On Feb. 14, 2007, the Magistrate Judge issued a report to the District Court Judge concerning both motions. In the report, the Magistrate Judge recommended both motions be denied due to fact issues in dispute. Both parties filed objections to the recommendations. On March 23, 2007, Xcel Energy received a decision from the District Court Judge essentially adopting the Magistrate Judge s recommendation denying both sides motions for summary judgment and reconfirming the July 24, 2007, trial date.

Xcel Energy believes that the tax deduction for interest expense on the COLI policy loans is in full compliance with the tax law. Accordingly, PSRI has not recorded any provision for income tax or related interest or penalties, and has continued to take deductions for interest expense on policy loans on its income tax returns for subsequent years. The litigation could take two to three years to reach final resolution. Defense of Xcel Energy s position may require significant cash outlays, which may or may not be recoverable in a court proceeding. The ultimate resolution of this matter is uncertain and could have a material adverse effect on Xcel Energy s financial position, results of operations and cash flows.

Should the IRS ultimately prevail on this issue, tax and interest payable through March 31, 2007, would reduce earnings by an estimated $437 million. Xcel Energy has received formal notification that the IRS will seek penalties. If penalties (plus associated interest) also are included, the total estimated exposure through March 31, 2007, is estimated to be approximately $520 million. If COLI interest expense deductions were no longer available, first quarter 2007 earnings would have decreased by $12 million, after tax, or 3 cents per share.

Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 ***(FIN 48)*** **In July 2006, the FASB issued *FASB Interpretation No. (*FIN) 48. FIN 48 prescribes how a company should recognize, measure, present and disclose uncertain tax positions that the company has taken or expects to take in its income tax returns. FIN 48 requires that only income tax benefits that meet the more likely than not recognition threshold be recognized or continue to be recognized on its effective date. As required, Xcel Energy adopted FIN 48 as of Jan. 1, 2007 and the initial derecognition amounts were reported as a cumulative effect of a change in accounting principle. The cumulative effect of the change, which is reported as an adjustment to the beginning balance of retained earnings, was not material. Following implementation, the ongoing recognition of changes in measurement**

of uncertain tax positions will be reflected as a component of income tax expense.

Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48) In July 2006

Xcel Energy files a consolidated federal income tax return; state tax returns based on income in its major operating jurisdictions of Colorado, Minnesota, Texas, and Wisconsin, and various other state income-based tax returns.

Xcel Energy has been audited by the IRS through tax year 2003, with a limited exception for 2003 research tax credits. The IRS commenced an examination of Xcel Energy s federal income tax returns for 2004 and 2005 (and research credits for 2003) in the third quarter of 2006, and that examination is anticipated to be complete by March 31, 2008. As of March 31, 2007, the IRS had not proposed any material adjustments. However, Xcel Energy is currently in litigation with the federal government to establish its right to deduct interest expense on COLI policy loans incurred since 1993 (see discussion of COLI above). All COLI tax benefits continue to be recognized in full. As of March 31,2007, Xcel Energy s 2000 through 2002 federal income tax returns remain open under applicable statutes of limitations.

Xcel Energy is also currently under examination by the state of Colorado for years 1993 through 1996 and 2000 through 2004, the state of Minnesota for years 1998 through 2000, and the state of Wisconsin for years 2002 through 2005. No material adjustments have been proposed as of March 31, 2007. As of March 31, 2007, Xcel Energy s earliest open tax years in which an audit can be initiated by state taxing authorities in its major operating jurisdictions are as follows:

Colorado -1993

Minnesota - 1998

Texas-2002, and

Wisconsin - 2002

The amount of unrecognized tax benefits was $47.3 million and $50.1 million on Jan. 1, 2007 and March 31, 2007, respectively. Of these amounts, $43.2 million and $45.9 million were offset against the tax benefits associated with net operating loss and tax credit carryovers as of Jan. 1, 2007 and March 31, 2007, respectively.

Included in the unrecognized tax benefit balance was $17.4 million and $18.0 million of tax positions on Jan. 1, 2007 and March 31, 2007, respectively, which if recognized would affect the annual effective tax rate. In addition, the unrecognized tax benefit balance included $29.9 million and $32.1 million of tax positions on Jan. 1, 2007 and March 31, 2007, respectively, for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. A change in the period of deductibility would not affect the effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period. The change in the unrecognized tax benefit balance from Jan. 1, 2007 to March 31, 2007, was due to the addition of similar uncertain tax positions relating to first quarter activity.

Xcel Energy s amount of unrecognized tax benefits could significantly change in the next 12 months as the IRS and state tax audits progress. However, at this time due to the nature of the audit process, it is not reasonably possible to estimate a range of the possible change.

The interest expense liability related to unrecognized tax benefits on Jan. 1, 2007, was not material due to net operating loss and tax credit carryovers. The change in the interest expense liability from Jan. 1, 2007, to March 31, 2007, was not material. No amounts were accrued for penalties.

5. Rate Matters

NSP-Minnesota

Pending and Recently Concluded Regulatory Proceedings — Federal Energy Regulatory Commission (FERC)

Midwest Independent Transmission System Operator, Inc. (MISO) Long-Term Transmission Pricing In October 2005, MISO filed a proposed change to its Transmission and Energy Markets Tariff (TEMT) to regionalize future cost recovery of certain high voltage (345 kilovolts (KV)) transmission projects to be constructed for reliability improvements. The proposal, called the Regional Expansion Criteria Benefits phase I (RECB I) proposal, would recover 20 percent of eligible transmission costs from all transmission service customers in the MISO 15 state region, with 80 percent recovered on a sub-regional basis. The proposal would exclude certain projects that had been planned prior to the October 2005 filing, and would require new generators to fund 50 percent of the cost of network upgrades associated with their interconnection. In February 2006, the FERC generally approved the RECB I proposal, but set the 20 percent limitation on regionalization for additional proceedings. Various parties filed requests for rehearing. On Nov. 29, 2006, the FERC issued an order on rehearing upholding the February 2006 order and approving the 20 percent limitation. On Dec. 13, 2006, the Public Service Commission of Wisconsin (PSCW) filed an appeal of the RECB I order.

In addition, in October 2006, MISO filed additional changes to its TEMT to regionalize future recovery of certain transmission projects (230 KV and above) constructed to provide access to lower cost generation supplies. The filing, known as Regional Expansion Criteria Benefits phase II (RECB II), would provide regional recovery of 20 percent of the project costs and sub-regional recovery of 80 percent, based on a benefits analysis. MISO proposed that the RECB II tariff be effective April 1, 2007. Initial comments were filed at the FERC on Dec. 22, 2006. The date FERC will take initial action is not known.

Transmission service rates in the MISO region presently use a rate design in which the transmission cost depends on the location of the load being served. Costs of existing transmission facilities are not regionalized. MISO is required to file a replacement rate methodology in August 2007, to be effective Feb. 1, 2008. It is possible MISO will propose to regionalize the recovery of the costs of existing transmission facilities.

On March 15, 2007, the FERC issued orders separately upholding the Nov. 29, 2006 order accepting the RECB I pricing proposal, and approving most aspects of the RECB II proposal. However, the FERC ordered MISO to re-examine the cost allocation for existing facilities, new reliability improvements and economic projects in the Aug. 2007 compliance filing.

Proposals to regionalize transmission costs could shift the costs of Northern States Power Co., a Minnesota corporation (NSP-Minnesota) and Northern States Power Co., a Wisconsin corporation (NSP-Wisconsin) transmission investments to other MISO transmission service customers, but would also shift the costs of transmission investments of other participants in MISO to NSP-Minnesota and NSP-Wisconsin.

Revenue Sufficiency Guarantee Charges On April 25, 2006, the FERC issued an order determining that MISO had incorrectly applied its TEMT regarding the application of the revenue sufficiency guarantee (RSG) charge to certain transactions. The FERC ordered MISO to resettle all affected transactions retroactive to April 1, 2005. The RSG charges are collected from certain MISO customers and paid to others. On Oct. 26, 2006, the FERC issued an order granting rehearing in part and reversed the prior ruling requiring MISO to issue retroactive refunds and ordered MISO to submit a compliance filing to implement prospective changes. In late November 2006, however, certain parties filed further requests for rehearing challenging the reversal regarding refunds.

On March 15, 2007, the FERC issued orders separately denying rehearing of the Oct. 26, 2006 order and rejecting certain aspects of the MISO compliance filings submitted on Nov. 26 and 27, 2006. The FERC ordered MISO to submit a revised compliance filing . As a result of the FERC order, Xcel Energy reduced the $6.1 million reserve to $1.9 million as of March 31, 2007.

Pending and Recently Concluded Regulatory Proceedings   Minnesota Public Utilities Commission (MPUC)

NSP-Minnesota Electric Rate Case In November 2005, NSP-Minnesota requested an electric rate increase of $168 million or 8.05 percent. This increase was based on a requested 11 percent return on common equity (ROE), a projected common equity to total capitalization ratio of 51.7 percent and a projected electric rate base of $3.2 billion. On Dec. 15, 2005, the MPUC authorized an interim rate increase of $147 million, subject to refund, which became effective on Jan. 1, 2006.

On Sept. 1, 2006, the MPUC issued a written order granting an electric revenue increase of approximately $131 million for 2006 based on an authorized ROE of 10.54 percent. The scheduled rate increase will be reduced in 2007 to $115 million to reflect the return of Flint Hills Resources, a large industrial customer, to the NSP-Minnesota system. The MPUC approved the wholesale margin settlement in which NSP-Minnesota returns most margins from unused generating capacity back to customers through the Fuel clause adjustment (FCA). NSP-Minnesota is allowed to earn an incentive on sales related to ancillary service obligations. The MPUC Order became effective in November 2006, and final rates were implemented on Feb. 1, 2007.

On March 13, 2007, a citizen intervenor submitted a brief asking that the Minnesota Court of Appeals remand to the MPUC with direction to; determine the correct amount of income tax collected in rates but not paid to taxing authorities; order the refund or credit to ratepayers of that part of taxes collected in rates but not paid; order the refund to ratepayers of the amount of interim rates collected in January and February of 2006 in violation of the previous merger order and provide other equitable relief. NSP-Minnesota and the MPUC submitted reply briefs on April 26, 2007.

NSP-Minnesota Natural Gas Rate Case In November 2006, NSP-Minnesota filed a request with the MPUC to increase Minnesota natural gas rates by $18.5 million, which represents an increase of 2.4 percent. The request is based on 11.0 percent ROE, a projected equity ratio of 51.98 percent and a natural gas rate base of $439 million. Interim rates, subject to refund, were set at a $15.9 million increase and went into effect on Jan. 8, 2007.

On March 9, 2007, various intervenors filed testimony in the Minnesota natural gas rate case.

The Minnesota Department of Commerce (MDOC) recommended a rate increase of $8.5 million based on a ROE of 9.71 percent.

The Office of Attorney General (OAG) recommended a ROE of 9.26 percent.

On April 10, 2007, Xcel Energy filed its rebuttal testimony and revised its requested relief to $16.8 million. The revised requested was caused primarily by an updated ROE estimate of 10.75 percent and an update to the sales forecast.

On April 24, 2007 the MDOC filed surrebuttal testimony recommending a rate increase of $10.9 million based on an updated ROE of 9.5 percent. The OAG filed surrebuttal testimony that continued to recommend a 9.26 percent ROE and made reference to the fact that Xcel Energy s consolidated taxes are significantly lower than those requested for recovery, but made no specific recommendations on this issue.

The remainder of the schedule for the Minnesota natural gas rate case