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April 27, 2001

Re: Northern States Power Company-Wisconsin
MPSC Case No. U-12651

Dear Ms. Wideman:

Enclosed for filing is an original and four (4) copies of Rebuttal Testimony of Donald F. Reck on Behalf of Northern States Power Company-Wisconsin d/b/a Xcel Energy. Also enclosed for filing is an original Proof of Service. An electronic filing is also being made.

Very truly yours,
LOOMIS, EWERT, PARSLEY
DAVIS & GOTTING, P.C.

Sherri A. Wellman

Sherri A. Wellman

Saw/KKF
Enclosure

S T A T E   O F   M I C H I G A N

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * *

In the matter of the application of **Northern States Power Company-Wisconsin,** d/b/a Xcel Energy, for approval of its plan for implementation of 2000 PA 141	)))))	 Case No. U-12651 (e-file)

PROOF OF SERVICE

Kelly K. Fitzgerald, employed at Loomis, Ewert, Parsley, Davis & Gotting, P.C., being duly sworn, affirms that on this 27th day of April 2001, she served a copy of **Rebuttal Testimony of Donlad F. Reck on Behalf of Northern States Power Company d/b/a Xcel Energy** in the above referenced matter upon the following persons on the attached Service List via first class mail.

Kelly Kay Fitzgerald

Kelly Kay Fitzgerald

Subscribed and sworn to before me on this 27th day of April, 2001.

Brandy L. Parker

Brandy L. Parker, Notary Public
Eaton County, Michigan
My Commission expires: May 30, 2004
Acting in Ingham County

NORTHERN STATES POWER COMPANY-WISCONSIN
MPSC CASE NO. U-12651

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S T A T E   O F   M I C H I G A N

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

*** * * ***

In the matter of the application of **Northern States Power Company-Wisconsin,** d/b/a Xcel Energy, for approval of its plan for implementation of 2000 PA 141	)))))	Case No. U-12651 (e-file)

Rebuttal Testimony of
Donald F. Reck

On Behalf of :

NORTHERN STATES POWER COMPANY-WISCONSIN
d/b/a Xcel Energy

Filed: April 27, 2001

Q. Please state your name and business address.

A: My name is Donald F. Reck and my business address is 1414 West Hamilton P.O. Box 8, Eau Claire, Wisconsin 54702-0008.

Q: By whom are you employed and in what capacity?

A: I am employed as Manager of Regulatory Administration by Xcel Energy Services Inc., the service Company for Xcel Energy Inc. Xcel Energy Services Inc. provides corporate and other services, including regulatory services, to Xcel Energy Inc. and its subsidiaries. Xcel Energy Inc. is the holding company created by the merger of Northern States Power Company and New Century Energies, Inc. Northern States Power Company, a Minnesota corporation (NSP-Minnesota and Northern States Power Company, a Wisconsin corporation ("NSP-W" or the "Company"), are both wholly-owned operating subsidiaries of Xcel Energy.

Q: What is your experience and involvement relating to implementation of customer choice in Michigan by NSP-W?

A: I am actively involved in the implementation of customer choice in Michigan, including work on development of the proposed retail access service tariff, determination of appropriate business practices for customer and supplier interfaces and other internal activities necessary for an effective customer choice program. My overall experience and qualifications are summarized in my Qualifications and Testimony filed in this case on February 20, 2001.

Q: Please summarize the purpose and scope of this rebuttal testimony.

A: The purpose of my testimony is to respond to the major issues raised by other parties, primarily the Michigan Public Service Commission ("Commission") Staff, in testimony and exhibits filed on March 19, 2001. Because of the Administrative Law Judge's ruling on Staff's Motion to Strike, NSP-W will not respond to any of the evidence which was stricken, including all of the testimony and exhibits of Martin G. Kushler, and Geoffrey C. Crandall and part of the testimony and exhibits of Ronald C. Callen. The Company will respond to the excluded evidence only if the ruling to strike it is later reversed.

A. Testimony and Exhibits of Ronald C. Callen

Q: Have you reviewed the part of the testimony and exhibits of Ronald C. Callen which was not stricken?

A: Yes.

Q: What is your understanding of Mr. Callen's proposal?

A: Mr. Callen proposed that the Commission consider adopting tariff provisions in this case which, among alternatives, include a non-bypassable customer line charge for nuclear decommissioning costs. Alternatives include making sure that decommissioning charges apply to standby customers or customers who return from open access service.

Q: Does NSP-W have a position regarding the provisions for nuclear decommissioning charges?

NSP-W believes that such recommendations regarding nuclear decommissioning, as they relate to NSP-W, are inappropriate.

NSP-W does not own any interest in any nuclear powered electric generation facilities and therefore, has not directly incurred any cost associated with decommissioning nuclear facilities. Currently NSP-W does not have a separate charge for nuclear decommissioning in its Michigan rates. NSP-W purchases all of its power from Northern States Power Company-Minnesota ("NSP-M") pursuant to the Interchange Agreement as approved by the Federal Energy Regulatory Commission ("FERC"). Although NSP-M owns and operates nuclear powered electric generation facilities, such are all located outside of Michigan. Moreover, NSP-M does not sell, transmit or distribute electricity at retail in Michigan so as to be subject to the jurisdiction of the Commission and FERC. Mr. Callen's recommendation is, therefore, inappropriate for NSP-W

B. Testimony and Exhibits of Paul A. Carlson

Q: What is NSP-W's position concerning the matters raised by Staff witness Paul Carlson?

A: Mr. Carlson's proposals are contained in Exhibit S-___ (PAC-2), which consists of a copy of the draft retail access service tariff filed by the company on February 20, with certain added and deleted items indicated. Before addressing the specific items, I must comment on the continued development of the open access tariff. The Michigan Electric and Gas Association working groups are continuing to modify the draft tariff based on input from many sources and Mr. Carlson's review and comments were found to be very helpful in this ongoing process. Due to the complexity of this effort, the Company's work on the tariff is ongoing. Although we plan to have an almost completed version ready for filing on June 5, it should be noted that the retail access service tariff can not be finalized until the Commission acts on several outstanding dockets that it has initiated (such as the Slamming/Cramming docket (U-12640)). Many of the issues, if not all of them, can be resolved well before the implementation date of January 1, 2002. However, due to these uncertainties, at this time, the tariff remains a work-in progress.

Q: Did you intend to respond to the proposed changes of Mr. Carlson?

A: Yes. We appreciate the detail of Mr. Carlson's work and many of his suggestions will be adopted or reflected in the Company's ultimate tariff. In this testimony, I will address the major differences of position between the Company and Staff and respond generally to the Staff's position.

Q: The Staff policy consideration was stated as the avoidance of tariff terms and conditions which would act to discourage customers and AES's from participating in open access. Do you agree this is an appropriate policy?

A: Yes, with the following added provisions. The terms and conditions of retail open access should be fair, reasonable and prudent from the standpoint of all stakeholders, including the incumbent utility, alternate suppliers, customers who choose an AES, and those customers who continue to rely on the utility's generation. It is important to balance these competing interests, rather than adopting provisions which favor one particular interest over the other interests. We approached the drafting process with this balancing in mind. We disagree with Mr. Carlson on a few critical items, but in general his comments are reflective of this same balance, subject to the following comments.

Q: What are the major differences you have with Mr. Carlson's proposed tariff changes?

A: There are two issues where we believe a more balanced approach should be taken. We believe that the Company's original draft tariff proposal concerning "return to utility service / default service" represented a reasonable balance of the various interests. We are concerned, however, that Staff's comments may not fully recognize the inherent risks and potentially significant and severe financial impacts on the incumbent utility, as well as customers who choose not to switch to an AES, of customers returning to utility service after initially switching to an AES. Additionally, the Staff change on creditworthiness should be slightly modified. These and other issues will be clarified below.

Q: Please elaborate regarding the default service issue.

A: In Tariff Section 2.6 NSP-W proposed to allow any Customer to return to Full Requirements Service at any time; however, if the Customer returned to the utility service within the 6-month notice period, then it would be served under Default Service for up to 6-months, before being returned to Full Requirements Service. Under Default Service, the Customer would pay the Company's top incremental cost for Power.

This provision was included, not to discourage choice, but to protect the Company and other customers who do not switch to an AES from the potential adverse effects of customers suddenly switching back at times of high market prices, or sudden “drops” of customers by an AES. If the Company had to procure supplies of power on the wholesale market to serve returning customers at times of high market prices, it could be forced to serve the returning customers at a loss if the normal regulated rate applied, similar to the recent conditions in California. These higher power supply costs would either be borne by the Company shareholders or passed on to the remaining PSCR customers, or some combination of the two. In the latter circumstance, the PSCR customers would be subsidizing the cost of service to the customers returning from choice.

Q: Is there a basis for this concern elsewhere in the industry?

A: Yes. In several states where customer choice has been implemented for more than a year there are many examples of customers returning to utility service just prior to peak summer months, or cases where an AES suddenly withdraws from a market and dumps a large number of customers (with a sizeable load) back onto the utilities. The utilities, who retain the obligation to serve such customers as the "provider of last resort", have often incurred significant financial hardships as a result. A dramatic example of this situation occurred in Pennsylvania, which is often touted as the state with the greatest successes regarding customer choice. Large numbers of customers were returned to utility service last spring just before the peak summer season and the cycle is starting to play out again this year. GPU, one of the utilities in Pennsylvania, has been hit with significant financial hardships as a result of this situation.

Q: Why is NSP-W proposal reasonable under the balancing of interests approach?

A: First, the Customer would be allowed back to the Full Requirements Service rates after a short transition period – no more than 6 months. Second, as defined, Default Service rates would exceed the Full Requirements Service generation rates only where the top incremental costs were higher than the average regulated rates. These measures would operate to protect the Company and other customers from the consequences of serving returning customers at a loss when top incremental costs are significantly higher than average regulated rates. The returning customers would bear the risks associated with incremental pricing, as they should, but only for a limited time

Q: What did the Staff propose as an alternative?

A: The Staff deleted the Default Service concept entirely and added language which would allow any Customer to return to Full Requirements Service on 30-day notice.

Q: Why is the Staff position less reasonable than the Company proposal?

A: The Staff's proposal was based on a concern about eliminating barriers to competition, and this was done at the expense of NSP-W being able to properly manage risks associated with customers suddenly returning to utility service after initially switching to an AES. This is especially problematic for larger customers or groups of smaller customers returning to the utility. NSP-W's proposal would limit the problem of selling power at retail rates below the wholesale cost, to no more than 6 months. We believe that market participation will be affected more by aggregate market factors, such as wholesale prices and supply, and supplier entry and marketing, than by tariff protections of this type. Staff's proposal, on the other hand, makes it more likely that either: (i) NSP-W would have to provide service at a loss to some customers; or (ii) power supply costs of the Company's customers would increase to support the switch-and-return group.

The Staff proposal would also increase the uncertainty associated with a utility's long-term planning for customer load and adequate generating resources. For example, if a major load customer of the utility decides to take generation service from an AES, the utility may respond by contracting to buy or sell less or more power, respectively and it might defer the acquisition of new generating resources. If that major customer is allowed to return to full requirements service, with minimal notice the utility could find itself in a difficult position matching supply with the new, suddenly increased demand, threatening service to all customers. NSP-W's proposal for 6 months notice would minimize the risk yet still allow the return to full requirements service in a reasonable period.

Q: What is the NSP-W's response to the Staff concerning creditworthiness?

A: In Section 3.5 of the draft tariff, NSP-W's original proposal, contemplated developing specific elements for creditworthiness to be included in the tariff filing on June 5, 2001. Staff replaced the Company's language with a provision establishing the following criteria: 1) an amount sufficient to cover anticipated charges for all services provided by the company; 2) three years of audited financials (acceptable positive net worth plus meeting risk parameters); 3) alternate security (guarantee, letter of credit); 4) reasonable review; and 5) standards apply to company affiliates. Most of these criteria contemplate the development of specific benchmarks for items such as "anticipated charges", "acceptable positive net worth", "risk parameters", etc. The issue, then, is how much of the specific benchmarks developed needs to be included in the tariff. NSP-W has considered the Staff language and proposes to use the following statement (revisions to Staff language are shown):

The Alternative Electric Supplier must demonstrate and maintain current creditworthiness in an amount sufficient to cover anticipated charges for all services provided by NSP-W **and must provide to** NSP-W **a historical record, of up to three (3) years, documenting prompt and timely payment of all** previous **charges.** For unsecured credit, the Alternative Electric Supplier must provide three (3) years of audited financial statements, including notes, having an acceptable amount of positive tangible net worth, and meeting risk parameters derived from an analysis of its financial statements. The Alternative Electric Supplier may provide alternative security or credit enhancement **in a form acceptable to** NSP-W, such as a letter of guarantee, letter of credit or prepayment. NSP-W will use reasonable credit review procedures which may include, but are not limited to, review of the Alternative Electric Supplier's financial statements, verification that the Alternative Electric Supplier is not operating under state or federal bankruptcy laws, and has no pending lawsuits or regulatory proceedings or judgments outstanding which would have a material adverse affect on the Alternative Electric Supplier and its ability to perform its obligations. Affiliates of NSP-W are subject to these same requirements and must provide proof of creditworthiness consistent with the code of conduct approved by the Commission.

Additional detail can be developed in procedures manuals.

Q: Are there additional issues regarding the Staff proposal you wish to identify?

A: Yes. Many of the Staff changes were developed for purposes of clarification, avoiding redundancy and to develop consistency with other provisions. We agree in concept, except for a few items. The Staff changes will be incorporated in the revised tariff draft to be filed on June 5, 2001. My additional specific comments are as follows:

(1) AES Disconnection (Section 2.8.2): The Staff proposal to allow disconnection under the billing rules on request of an AES may be

premature because the Commission rules (Rules 61-62) do not authorize shutoffs for non-payment of a 3^{rd} party supplier. Including Staff's provision may suggest otherwise. NSP-W is emphatic in its belief that once a customer switched to an AES, the contractual obligations will guide any payment disputes between the customer and the AES for that portion of their electric service. At no point will the Company intercede in any failure to pay the AES bill by a customer - that is a contractual issue between the other two parties and the use of disconnection to settle such issues are inappropriate.

(2) Customer Authorization for Customer Information (Section 2.3.1): We have some concerns with the Staff proposed changes in this section on which we are still trying to reach consensus. The Company's final position on this issue will be included in the June 5 tariff filing.

(3) Switch Request (Section 2.4.2): Currently, the MPSC has not established any rules or requirements associated with the customer enrollment and switching process. Consequently, the utilities will need to define the minimum requirements to validate customer enrollments and switching, and are still working on consensus on these issues.

(4) Limitation of Liability (Sections 2.9 and 3.7): The Company will compare these provisions regarding the consistency with other

limitations language in the general tariff rules and regulations and consider combining the separate provisions in the Customer and Supplier sections. The limitation of consequential damages is an important item.

(5) Other Issues: We are considering appropriate fees and time periods for certain actions left blank in the original proposal. The Staff modified these fees and time periods in its exhibit, but the basis for these figures was not established on the operational or financial processes of NSP-W, but were based on those of other companies in Michigan. Thus, the Company is currently determining the appropriate values for these items. These will be finalized and included in the June 5 filing.

Q: Does this complete your rebuttal testimony at this time?

A: Yes.