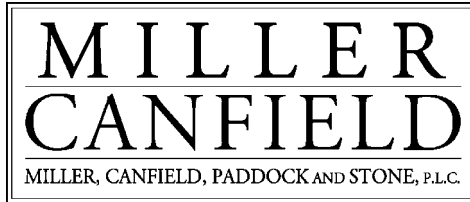


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SHERRI A. WELLMAN
TEL: (517) 483-4954
FAX: (517) 374-6304
E-MAIL: wellmans@millercanfield.com

One Michigan Avenue, Suite 900
Lansing, Michigan 48933
TEL: (517) 487-2070
FAX: (517) 374-6304
www.millercanfield.com

July 7, 2006

Ms. Mary Jo Kunkle
Executive Secretary
Michigan Public Service Commission
6545 Mercantile Way
P.O. Box 30221
Lansing, MI 48909

Re: Northern States Power Company, a Wisconsin corporation,
d/b/a Xcel Energy
MPSC Case No. U-14719

Dear Ms. Kunkle:

Enclosed for electronic filing please find the Settlement Agreement. Also enclosed is a Proof of Service.

Very truly yours,

Sherri
Wellman

Sherri A. Wellman

Digitally signed by Sherri Wellman
DN: CN = Sherri Wellman, C =
US, O = Miller Canfield
Date: 2006.07.07 15:34:45 -04'00'

SAW/lab
Enclosures
cc w/ enc: Donald Dahl

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of)
NORTHERN STATES POWER COMPANY,)
A WISCONSIN CORPORATION, d/b/a)
XCEL ENERGY, for authority to implement a)
gas cost recovery plan and establish gas cost)
recovery factors for the 12-month period ending)
March 31, 2007.)

Case No. U-14719

PROOF OF SERVICE

STATE OF MICHIGAN)
)ss
COUNTY OF INGHAM)

Lisa A. Becker, being first duly sworn, deposes and says that on July 7, 2006, she served a copy of the **Settlement Agreement** upon the following parties by electronic mail and by depositing the same in a United States postal depository enclosed in an envelope bearing postage fully prepaid, plainly addressed as follows:

Mark E. Cummins
Administrative Law Judge
Michigan Public Service Commission
6545 Mercantile Way, Ste 7
Lansing, MI 48911
mecummi@michigan.gov

Emmanuel Odunlami
Assistant Attorney General
Michigan Public Service Commission
6545 Mercantile Way, Ste 15
Lansing, MI 48911
odunlamie@michigan.gov

Lisa Becker

Digitally signed by Lisa Becker
DN: CN = Lisa Becker, C =
US, O = Miller Canfield
Date: 2006.07.07 15:34:56 -
04'00'

Lisa A. Becker

Subscribed and sworn before me
on this 7th day of July, 2006.

Edith Loomis

Digitally signed by Edith Loomis
DN: CN = Edith Loomis, C = US,
O = Miller Canfield
Date: 2006.07.07 15:35:04 -04'00'

Edith D. Loomis, Notary Public
State of Michigan, County of Ingham
My Commission Expires: December 5, 2006

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of	)	
Northern States Power Company, a	)	Case No. U-14719
Wisconsin corporation, (d/b/a) Xcel Energy	)	
for authority to implement a gas cost recovery	)	
plan and establish gas cost recovery factors for	)	
<u>the twelve-month period ending March 31, 2007.</u>	)	

SETTLEMENT AGREEMENT

As provided in Section 78 of the Administrative Procedures Act of 1969 ("APA"), as amended, MCL 24.278, and Rule 333 of the Rules of Practice and Procedure Before the Commission, 2000 AC, R 460.17333, Northern States Power Company, a Wisconsin corporation, doing business as Xcel Energy ("NSP-W" or the "Company") and the Michigan Public Service Commission Staff ("Staff") hereby agree as follows:

1. On December 28, 2005, NSP-W filed with the Michigan Public Service Commission ("Commission") its Application, along with the testimony and exhibits of its witnesses, Donald R. Dahl and Joni H. Zich, seeking approval of a Gas Cost Recovery ("GCR") Plan and GCR Factors for the 12-month period ending March 31, 2007, as well as a five-year forecast.

2. The Commission's Executive Secretary issued a Notice of Hearing dated January 27, 2006 directing NSP-W to mail a copy of the Notice of Hearing to all cities, incorporated villages, townships, and counties in its Michigan gas service area and to all intervenors in Case Nos. U-14404 and U-13918-R. The Commission further directed NSP-W to publish the Notice of Hearing in daily newspapers of general circulation

throughout its Michigan gas service area. Complying with the directives, NSP-W filed the requisite Affidavit of Mailing and Proof of Publication with the Commission on February 13, 2006.

3. On February 28, 2006, Administrative Law Judge Mark E. Cummins presided over a prehearing conference in this matter, and Staff entered its appearance. No persons intervened.

4. On April 18, 2006, NSP-W filed the supplemental testimony and exhibits of Mr. Dahl which reflected an update to Mr. Dahl's December 28 filing to (i) re-calculate the GCR factor based on more current market pricing, and (ii) incorporate additional fixed price hedging into the Company's Michigan 2006-07 GCR Plan.

5. Subsequently, the parties engaged in settlement discussions and agree as follows:

- a. NSP-W's GCR Plan, as supplemented, for the 12-month period ending March 31, 2007, and the underlying decisions, are reasonable and prudent in light of present evidence and in compliance with Act 304 and should be approved by the Commission.
- b. NSP-W should be authorized to implement uniform GCR factors of \$0.9983 per therm for the first billing month following approval of this settlement agreement through March 2007. NSP-W's tariff sheet, M.P.S.C. No. 2 – Gas, Sheet No. E-1.0, reflects the uniform GCR factors of \$0.9983 per therm and is attached hereto as Attachment A.

- c. NSP-W should be authorized following approval of this settlement agreement to adjust its uniform GCR factors each quarter according to its GCR Ceiling Price Adjustment (Contingency) Mechanism, as described at M.P.S.C. No. 2 – Gas, Sheet Nos. E-2.0 and E-3.0, attached hereto as Attachment B.
- d. NSP-W should be authorized to hedge an additional 23% of its Michigan winter GCR load requirements with fixed price financial instruments, which will bring the total planned hedging for Michigan GCR customers to approximately 73% of the winter load (28% storage and 22% financial instruments – primarily call options). These fixed price purchases and associated costs will be dedicated exclusively to Michigan GCR customers. Because of the small volumes involved for NSP-W's Michigan GCR customers it is agreed that this additional purchase will be a one-time purchase by June 1, 2006 for the 2006-07 GCR period.
- e. It is further agreed that for its 2007-08 GCR plan year, NSP-W should be authorized to hedge approximately 75% of its Michigan winter GCR load requirements using a combination of approximately 28% storage (no incremental storage is required to be purchased from the 2006-2007 GCR plan year, but in the future reasonably priced storage opportunities should always be evaluated and presented in the plan case) and 47% fixed price purchases other than call options. These fixed price purchases and

associated costs will be dedicated exclusively to Michigan GCR customers. Because of the small volumes involved for NSP-W's Michigan GCR customers, two fixed price purchases will be acquired. The first purchase will occur between January 1, 2007 and April 1, 2007 for a volume of approximately 1,250 Dth/day for the months of November 2007 through March 2008. The second purchase will occur between April 1, 2007 and July 1, 2007, for a volume of approximately 1,500 Dth/day for the months of December 2007 through February 2008. Finally, it is agreed that the parties will participate in a technical conference to discuss and review the 2007-2008 plan in late March or early April of 2007 for the Company's Michigan 2007-2008 winter load requirements.

- f.. Reasonably and prudently incurred premiums on financial instruments and the corresponding gains and losses shall be treated as part of the booked costs of gas for purposes of the gas cost recovery clause. NSP-W shall report these gains or losses on separate lines as part of its 45 days reports and its GCR reconciliation case filing. Premiums, gains and losses included in the cost of gas are those that are made in conformance with the gas hedging purchasing plans described in NSP-W's filing in this case.
- g.. NSP-W's five-year forecast, based on current evidence, meets the statutory mandates of Act 304 and should be accepted for filing.

6. This settlement agreement resolves all of the issues arising in this case.

7. All of the signatories are of the opinion that this settlement agreement will aid the expeditious conclusion of this case.

8. This settlement agreement is intended for a final disposition of this proceeding, and the parties join in respectfully requesting that the Commission grant prompt approval. The parties agree not to appeal, challenge, or contest the Commission's Order accepting and approving this settlement agreement without modification. If the Commission does not accept the settlement agreement without modification, the agreement shall be withdrawn and shall not constitute any part of the record in this proceeding or be used for any other purpose whatsoever.

9. This settlement agreement, particularly the understandings set forth in paragraphs 5d and 5e, has been made for the sole and express purpose of settling this case, and all discussions relating hereto are and shall be privileged and shall not be used in any manner, or be admissible for any other purpose in connection with this proceeding or any other proceeding hereof. This settlement agreement, and the understandings reflected therein, does not constitute a precedent in any other case or proceeding, either in Michigan or otherwise, except as necessary to carry out its terms.

10. The parties agree to waive Section 81 of the Administrative Procedures Act of 1969, as amended, MCL 24.281, providing that the Commission approves this settlement agreement without modification.

Respectfully submitted,

NORTHERN STATES POWER COMPANY,
A WISCONSIN CORPORATION,
d/b/a Xcel Energy

Dated: June 26, 2006

By: **Sherri Wellman**
Digitally signed by Sherri Wellman
DN: CN = Sherri Wellman, C = US, O
= Miller Canfield
Date: 2006.06.26 15:25:40 -04'00'

One of its Attorneys
Harvey J. Messing (P23309)
Sherri A. Wellman (P38989)
MILLER, CANFIELD, PADDOCK
AND STONE, P.L.C.
One Michigan Avenue, Suite 900
Lansing, Michigan 48933
(517) 482-2070
NSP-W's Attorneys

MICHIGAN PUBLIC SERVICE COMMISSION
STAFF

Dated: June 26, 2006

By: 

Its Attorney
Emmanuel B. Odunlami (P66255)
Assistant Attorney General
Public Service Division
6545 Mercantile Way, Suite 15
Lansing, MI 48911
(517) 241-6680

LALIB:140201.1\130017-00006

ATTACHMENT A

M. P. S. C. No. 2 – Gas
NORTHERN STATES POWER COMPANY
(To reflect approval of GCR factors in approved in Case U-14719.)

13th Revised Sheet No. E-1.0
Cancels 12th Revised Sheet No. E-1.0

SECTION E
GAS COST RECOVERY CLAUSE

GAS COST RECOVERY FACTORS

The following monthly gas cost recovery factors are authorized pursuant to Section B10, Gas Cost Recovery Clause:

	Maximum Authorized Factor /therm	Actual Billed Factor /therm	
<u>First Quarter</u> (reflects self implementation of filing in Case No U-41719)			
April 2006	\$1.15774	\$1.06000	
May 2006	\$1.15774	\$1.06000	
June 2006	\$1.15774	\$1.06000	
<u>Second Quarter</u> (reflects expected factors in supplemental testimony in Case No. U-41719)			
July 2006	\$0.99830	NA	R
August 2006	\$0.99830	NA	R
September 2006	\$0.99830	NA	R
<u>Third Quarter</u> (reflects expected factors in supplemental testimony in Case No. U-41719)			
October 2006	\$0.99830	NA	R
November 2006	\$0.99830	NA	R
December 2006	\$0.99830	NA	R
<u>Fourth Quarter</u> (reflects expected factors in supplemental testimony in Case No. U-41719)			
January 2007	\$0.99830	NA	R
February 2007	\$0.99830	NA	R
March 2007	\$0.99830	NA	R

(1) The maximum Gas Cost Recovery Factors shown above are subject to adjustment pursuant to the contingency mechanism. See Sheet No E-2.0. The factors shown above are adjusted by the 1st quarter contingency mechanism.

(2) The Gas Cost Recovery factors shown above are the maximum authorized and the actual billed Gas Cost Recovery Factors the Company may charge (subject to the contingency mechanism adjustment). The Company will file a revised Sheet No- E-1.0 monthly or as necessary to reflect the factor to be billed the following month.

(3) The Company will file by December 30, 2006 for maximum Gas Cost Recovery Factors for April 2007 through March 2008. The Gas Cost Recovery Factor to be charged beginning April 2007 is authorized pursuant to §6(h)(9) of 1982 PA 304, as amended, MCL 460.6h et seq.

Issued	Effective for bills rendered on and after the first Billing Cycle of the April 2006 billing month
M.L. Swenson	Issued Under Authority of the Michigan
President	Public Service Commission order dated
Eau Claire, Wisconsin	in Case No. U-14719

ATTACHMENT B

M. P. S. C. No. 2 – Gas
NORTHERN STATES POWER COMPANY Cancels Revised 5th Sheet No. E-2.0
Revised 4th Sheet No. E-2.0
(To implement new GCR Ceiling Price Adjustment Mechanism approved in Case No. U-14719)

GAS COST RECOVERY CLAUSE

GCR CEILING PRICE ADJUSTMENT (CONTINGENCY) MECHANISM

Pursuant to §6(h)(9) of 1982 PA 304, as amended, MCL 460.6h et seq., the maximum Gas Cost Recovery Factors on Sheet No. E-1.0 may be increased or decreased, on a quarterly basis, for the remaining months of such GCR Plan year, contingent upon NYMEX futures prices changing to a level different from that which was incorporated in the calculation of the Commission approved GCR ceiling prices.

At least fifteen days before the beginning of each quarter, the Company shall file with the Michigan Public Service Commission an updated Sheet No. E-1.0, if the contingency calculation results in an increase or decrease to the existing GCR factors. The filing shall include all supporting documents necessary to verify the GCR factor change, including a copy of the calculation and copies of the NYMEX futures price sheet, for the first five trading days of the month, such sheets being an authoritative source used by the gas industry, along with any additional information deemed necessary to verify the GCR factor increase. The filing shall be incorporated in the GCR Plan Case U-14719.

Calculation Methodology:

The GCR factors for each of the remaining months of the GCR Plan period shall be increased by **\$0.00459** per therm for every \$0.10 per MMBtu increase in the NYMEX natural gas futures contract prices using the table on Sheet E-3.0, where the Contingent GCR Ceiling price is based on the following formula: New Factor = Original Factor + Adjustment R

Definitions

New Factor = New maximum GCR factor (\$/MMBtu).

Adjustment = **0.459** * (NYMEX Increase) R

NYMEX Increase = (NYMEX Ave. Futures Price – NYMEX avg. base price)

NYMEX Avg. Futures Price - Simple average of the actual NYMEX monthly natural gas futures contract prices (in \$/MMBtu) for the remaining (n) months of the GCR Period based on the first five trading days:
 $\sum(\text{NYMEX futures price})_i / n.$

NYMEX Avg. Base Price - Simple average of the actual NYMEX monthly natural gas futures contract prices (in \$/MMBtu) for the remaining (n) months of the GCR Period, as incorporated in the approved GCR Plan:
 $\sum(\text{NYMEX base price})_i / n.$

(Continued on Sheet No. E-3.0)

Issued	Effective for bills rendered on and after the first Billing Cycle of the April 2006 billing month
M.L. Swenson	Issued Under Authority of the Michigan Public
President	Service Commission order dated
Eau Claire, Wisconsin	in Case No. U-14719.

M. P. S. C. No. 2 – Gas
NORTHERN STATES POWER COMPANY
(To implement new GCR Ceiling Price Adjustment Mechanism approved in Case No. U-14719)

5th Revised Sheet No. E-3.0
Cancels 4th Revised Sheet No. E-3.0

GAS COST RECOVERY CLAUSE
(Continued from Sheet No. E-2.0)

GCR CEILING PRICE ADJUSTMENT (CONTINGENCY) MECHANISM (contd)

Definitions (contd)

<u>Quarters</u>	<u>(n)</u>	<u>Remaining Months</u>
1 st	12	(April 2006 – March 2007)
2 nd	9	(July 2006 – March 2007)
3 rd	6	(October 2006 – March 2007)
4 th	3	(January 2007 – March 2007)

Contingent GCR Ceiling Factors

		1 st Quarter		2 nd Quarter		3 rd Quarter		4 th Quarter		
GCR Plan filed Factor		\$0.99830		\$0.99830		\$0.99830		\$0.99830		
NYMEX Ave Base Price		\$8.667		\$9.169		\$9.953		\$10.836		
Contingent GCR Ceiling Prices \$/therm										
Table for NYMEX Increases					Table for NYMEX Decreases					
NYMEX Increase	All Quarters		NYMEX Increase	All Quarters		NYMEX Decrease	All Quarters		NYMEX Decrease	All Quarters
< \$0.10	\$1.00060		< \$1.60	\$1.06945		< \$0.10	\$0.99601		< \$1.60	\$0.92716
< \$0.20	\$1.00519		< \$1.70	\$1.07404		< \$0.20	\$0.99142		< \$1.70	\$0.92257
< \$0.30	\$1.00978		< \$1.80	\$1.07863		< \$0.30	\$0.98683		< \$1.80	\$0.91798
< \$0.40	\$1.01437		< \$1.90	\$1.08322		< \$0.40	\$0.98224		< \$1.90	\$0.91339
< \$0.50	\$1.01896		< \$2.00	\$1.08781		< \$0.50	\$0.97765		< \$2.00	\$0.90880
< \$0.60	\$1.02355		< \$2.10	\$1.09240		< \$0.60	\$0.97306		< \$2.10	\$0.90421
< \$0.70	\$1.02814		< \$2.20	\$1.09699		< \$0.70	\$0.96847		< \$2.20	\$0.89962
< \$0.80	\$1.03273		< \$2.30	\$1.10158		< \$0.80	\$0.96388		< \$2.30	\$0.89503
< \$0.90	\$1.03732		< \$2.40	\$1.10617		< \$0.90	\$0.95929		< \$2.40	\$0.89044
< \$1.00	\$1.04191		< \$2.50	\$1.11076		< \$1.00	\$0.95470		< \$2.50	\$0.88585
< \$1.10	\$1.04650		< \$2.60	\$1.11535		< \$1.10	\$0.95011		< \$2.60	\$0.88126
< \$1.20	\$1.05109		< \$2.70	\$1.11994		< \$1.20	\$0.94552		< \$2.70	\$0.87667
< \$1.30	\$1.05568		< \$2.80	\$1.12453		< \$1.30	\$0.94093		< \$2.80	\$0.87208
< \$1.40	\$1.06027		< \$2.90	\$1.12912		< \$1.40	\$0.93634		< \$2.90	\$0.86749
< \$1.50	\$1.06486		< \$3.00	\$1.13371		< \$1.50	\$0.93175		< \$3.00	\$0.86290

Issued

M.L. Swenson
President
Eau Claire, Wisconsin

Effective for bills rendered on and after the first
Billing Cycle of the April 2006 billing month
Issued Under Authority of the Michigan Public
Service Commission order dated
in Case No. U-14719.